Istituto Affari Internazionali

Cracks in the Global Monetary Architecture

by Christophe Diederen and Franco Passacantando

ABSTRACT

The current international monetary system is based on a dollar standard, functioning within a framework of global cooperation aimed at providing public goods such as free trade, financial stability and price stability. Trade wars, the widespread use of sanctions, widening US fiscal gaps are undermining confidence in the dollar, while other currencies struggle in establishing themselves as viable global options. The erosion of a universally recognised safe haven currency is leading to increased volatility in foreign exchange markets and heightened risks of financial instability. Rather than promoting deeper integration, the different approaches followed in the digitalisation of finance in various jurisdictions risks accelerating market fragmentation. International cooperation should be reinforced and Europe can play a key role in fostering it. It is essential to counteract fragmentation in goods and financial markets and preserve the international community's ability to address pressing global challenges, including the climate crisis and rising global debt levels.

Reserve currency | US dollar | Chinese renmimbi | Transatlantic relations

keywords

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Introduction

After a prolonged period of relative stability, the international monetary system that emerged after World War II (WWII) is facing its most serious test yet, because of intensifying rivalries among major powers, the unprecedented use of financial sanctions, rising protectionism and growing hostility toward international institutions.

The current system is built on two pillars: the US dollar, which dominates global trade and finance, and a network of multilateral institutions with near-universal membership. Both pillars are now showing first cracks. Confidence in the dollar is weakening, and multilateral institutions and forums are increasingly struggling to forge consensus on how to address major global economic and social imbalances.

At the heart of this tension lies the complex transition from a unipolar order dominated by a single hegemonic power to a system where multiple actors aspire to similar levels of influence. Historical precedents for such a transition are limited. In the past, emerging challengers eventually supplanted incumbents. The British did not share global leadership with the Dutch, nor did the Americans with the British. While the Cold War era saw a bipolar world, the United States and the Soviet Union operated in largely disconnected economic systems. Today, by contrast, the United States, China and the EU all embrace market-based economic principles and are deeply interconnected across nearly every domain of economic activity.

At the same time, the very nature of money and finance is being transformed by the advent of digital technologies. Presently, money is fiduciary in nature – issued and transferred globally through networks of commercial and central banks. New forms of money and evolving payment systems are beginning to challenge the status quo.

* Christophe Diederen is Head of Global Macro Monitoring at Euroclear. Franco Passacantando is scientific advisor at the Istituto Affari Internazionali (IAI) and senior fellow at the LUISS School of European Political Economy in Rome.

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1. The post war equilibrium between hegemony and cooperation

Many features of today's global monetary order are inherited from the Bretton Woods system, established after WWII to prevent a return to competitive devaluations, trade wars and isolationism. All currencies of the countries adhering to the Bretton Woods system were pegged to the US dollar, which in turn was convertible into gold. As is well known, the Nixon Administration (1969-74) ended convertibility in 1971, giving way to the so-called Bretton Woods II system.

Even without gold convertibility, the system has remained centred on the US dollar, which continued to be accepted as an international currency due to the strength of the US economy and technological edge, its dominant role in global trade, the depth of its capital markets, its military power and the credibility of its institutional and legal frameworks.

The broader system has continued to operate within a framework of international cooperation, aimed at providing global public goods such as free trade, financial stability and price stability. The original Bretton Woods Institutions (BWIs) – the International Monetary Fund (IMF) and the World Bank (WB) – have been over time complemented by the World Trade Organization (WTO), the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and global forums with major economic governance responsibilities, most notably the G20.

In the absence of a formal exchange rate agreement, since the Nixon shock major economies have generally adopted floating exchange rates. To limit excessive exchange rate fluctuations, central banks have occasionally coordinated interventions. The IMF has played a central role in analysing global imbalances and advising on corrective measures to mitigate undue currency volatility. It has also retained authority over access to its credit facilities for countries facing balance-of-payment deficits. Meanwhile, the World Bank has become the principal institution for development financing and policy guidance in the developing world.

2. Threats to the dollar hegemony

As of 2024, the United States accounted for approximately 26 per cent of global GDP, in nominal terms, while China represented 17 per cent. When measured by purchasing power parity, China's share surpassed that of the United States (19.9 vs. 14.8 per cent). Despite this shift in economic weight, the US dollar remains the dominant reserve currency, accounting for around 58 per cent of global reserves, while, the Chinese renminbi (RMB) still struggles to exceed a 3 per cent share. This lag is not unusual: historically, shifts in monetary dominance have trailed shifts in economic power by decades. Nor is it a given that China's currency will replace the US dollar as the natural consequence of its economy becoming bigger. Policy choices will matter too, both in China and the United States.

The erosion of the dollar's dominance could accelerate. One such factor is the increasing "weaponisation" of money in geopolitical conflicts which would affect the dollar, together with other western currencies. The unprecedented use of sanctions with an extraterritorial reach, the freezing of the Russian central bank's reserves held in Western financial institutions and proposals to confiscate those reserves without due process, independently of their moral justifications, risk undermining the perception of reserve currencies as inherently safe assets.

A more immediate threat comes from domestic trends in the United States. Confidence in the dollar as a safe asset has been weakened by policy unpredictability, trade-related tensions and growing concerns over fiscal sustainability. This has contributed to heightened exchange rate volatility, slower growth and expectations of higher inflation. Moreover, the current US administration appears less committed to a strong-dollar policy as part of its shift from free trade to a more mercantilist policy.

Stephen Miran, Chairman of the Council of Economic Advisers, has argued that the United States' persistent balance-of-payments deficits, needed to meet the global demand for dollars, have kept the dollar excessively strong, undermining US export competitiveness and leading to chronic trade deficits. Miran has proposed a managed de-evaluation of the dollar through a deal with major foreign holders of US Treasury bonds who would accept lower returns to avoid tariffs, sanctions or other kinds of retribution.[1] Such a radical proposal has not been carried forward as part of any of the subsequent trade negotiations, but it has certainly added to market uncertainty.

Over the past five years, a significant reallocation away from the dollar has not occurred, largely due to the "TINA" effect – "There Is No Alternative". In fact, the dollar's share of global reserves has remained relatively stable. The euro and the renminbi have also held steady or declined slightly, while diversification away from the dollar has tended to benefit other currencies, such as the Japanese yen, Swiss franc, Canadian dollar and Australian dollar, as well as gold.

Nonetheless, signs of change are emerging. Recently, the dollar has come under pressure amid rising demand for the euro and, in particular, German government bonds. This suggests "capital flight" toward Eurozone safe assets, possibly driven by Germany's increased willingness to stimulate the economy through higher defence spending and debt issuance. As illustrated in Figure 1 below, there has also been a notable outflow from the US investment-grade (IG) bond market in favour of European alternatives.

[1] Stephen Miran, *A User's Guide to Restructuring the Global Trading System*, Hudson Bay Capital, November 2024, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.

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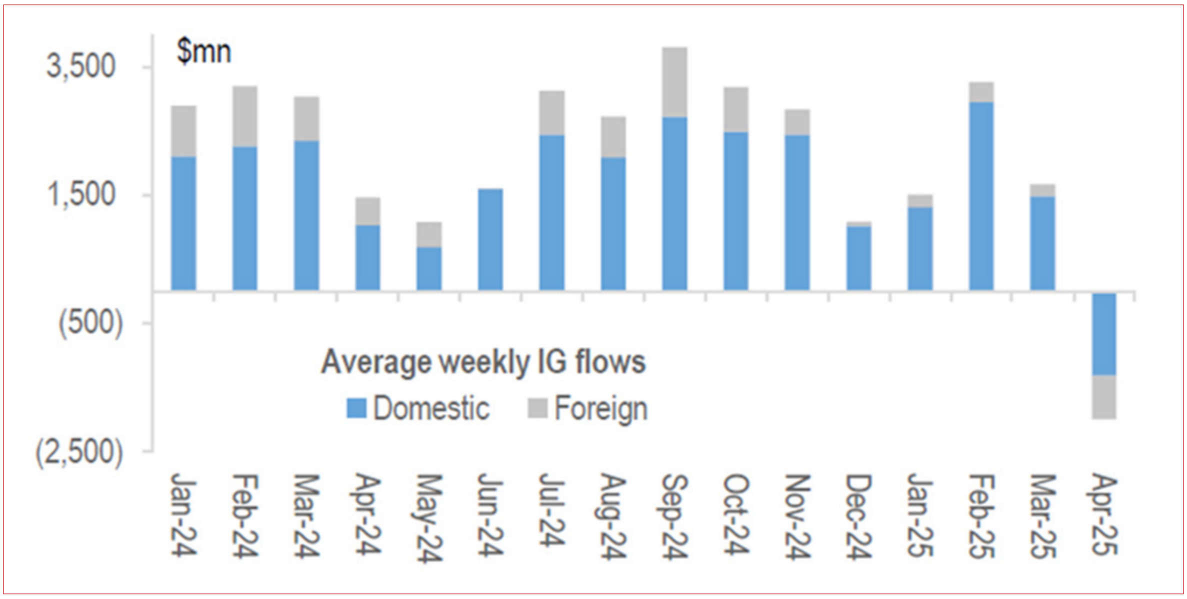
Figure 1 | US investment grade (IG) market: Inflows and outflows



Source: JP Morgan, EPFR.

Whether these developments will catalyse structural change remains to be seen. The euro has a unique opportunity to assume a greater international role. The one-trillion-euros pool of European safe assets in the market currently, issued by the European Commission, the European Investment Bank (EIB) and the European Stability Mechanism (ESM) plus the European Financial Stability Facility (EFSF), offers a good starting point. A recent proposal suggests exchanging a volume of national bonds (up to 25 per cent of the EU GDP) for senior "European bonds" in order to create a five-trillion-euros pool of European safe assets.[2] Such safe assets could act as a safe haven in times of stress, with great benefits for European borrowing costs and the stability of the global monetary system. A clearer understanding and quantification of these benefits may help overcome political resistance to further EU integration.

Both the European Commission and the European Central Bank (ECB) have advocated for a more prominent international role for the euro. A notable initiative is the development of a digital euro, aimed at strengthening the EU's strategic autonomy.[3] The ECB also plans to link its TARGET Instant Payment Settlement system with other fast payment networks worldwide, to reduce the risk of global payment system fragmentation.[4] Finally, ECB President, Christine Lagarde has

[2] Olivier Blanchard and Ángel Ubide, "Now Is the Time for Eurobonds: A Specific Proposal", in *RealTime Economics Blog*, 30 May 2025, https://www.piie.com/node/17960.

[3] Piero Cipollone, *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, https://www.bis.org/review/r250409f.htm.

[4] European Central Bank (ECB), *TIPS to Connect to Other Fast Payment Systems Globally*, 21 October 2024, https://www.ecb.europa.eu/home/doc/ecb.doc241021_TIPS_to_connect_to_other_fast_payment_systems.en.pdf.

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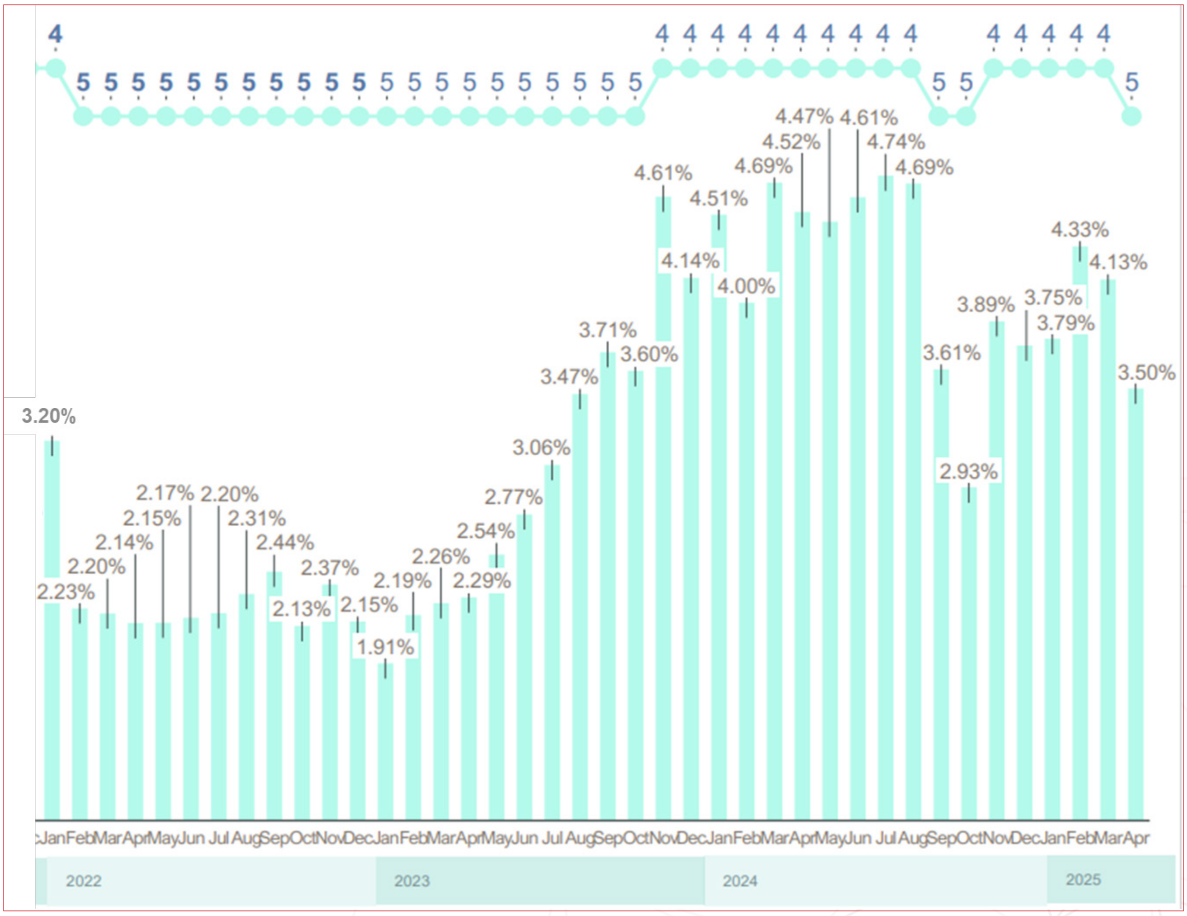
proposed promoting the euro as the default currency for trade invoicing. Realising this ambition would require new trade agreements and enhanced liquidity mechanisms, such as expanded swap line arrangements between the ECB and other central banks.[5]

In the longer term, the RMB is also likely to play a more significant role. In the near term, however, investor's concerns regarding legal protections and capital mobility remain significant. China is working with several countries to promote RMB-denominated trade, supported by bilateral swap lines offered by the People's Bank of China (PBOC) to around forty foreign central banks and monetary authorities.[6] Since 2022, the use of the RMB as a global currency has grown but a sustainable upward trend is not yet visible (Figure 2).

Figure 2 | Evolution of RMB as a global payment currency (share and ranking)



Source: SWIFT, *RMB Tracker*, 22 May 2025, p. 6, https://www.swift.com/swift-resource/252419/download.

[5] "Euro Could Become the Dollar's Alternative, Lagarde Says", in *Reuters*, 26 May 2025, https://www.reuters.com/world/europe/euro-could-become-dollars-alternative-lagarde-says-2025-05-26.

[6] Jennifer Johnson-Calari, Arnab Das and Franco Passacantando, "The 'Weaponisation' of Money: Risks of Global Financial Fragmentation", in *IAI Papers*, No. 24|20 (June 2024), https://www.iai.it/en/node/18628.

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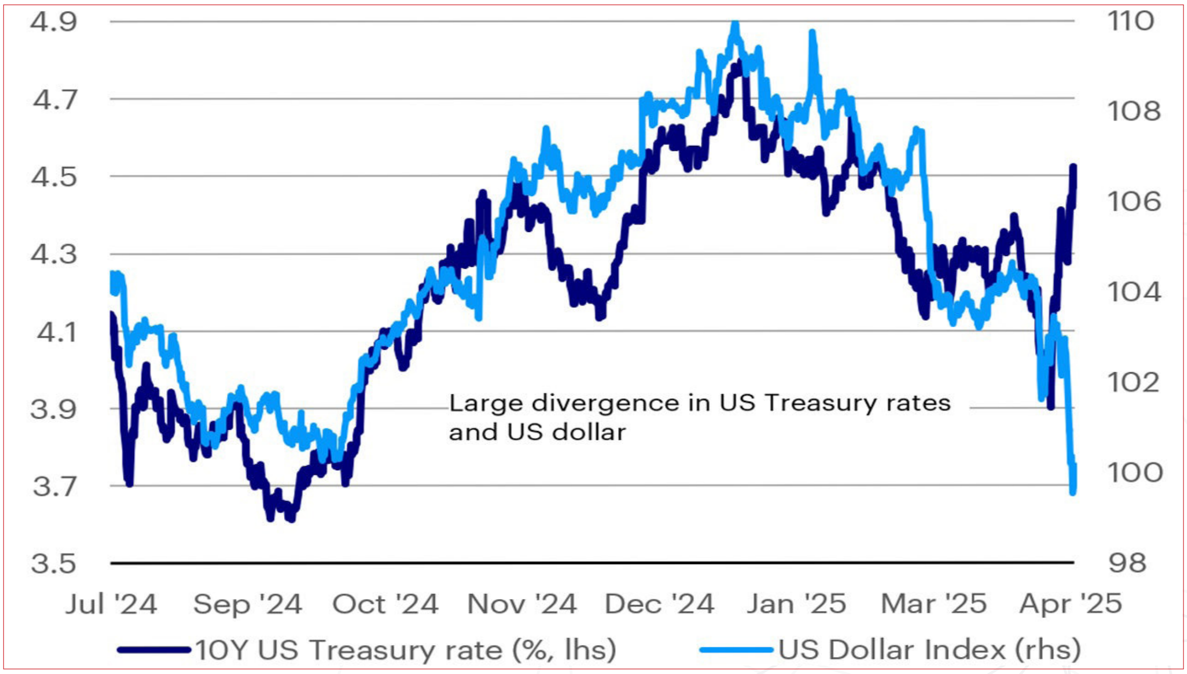
China is accelerating its effort to promote the use of the RMB in the payments space. In 2024, the PBOC's Cross-Border Interbank Payment System (CIPS) processed over 8.2 million transactions worth 175.49 trillion RMB – representing year-on-year increases of 24.25 per cent in volume and 42.6 per cent in value.[7] While SWIFT remains a vastly larger payment system – serving over 11,000 institutions in more than two hundred countries – CIPS is increasingly seen as a potential alternative, especially if geopolitical tensions further politicise access to SWIFT.

China has also launched a joint action plan, in collaboration with the Shanghai municipal government and national regulators, to promote Shanghai as a global financial hub and expand the RMB's international use, as illustrated by Zoe Liu Zongyuan in this same research project.[8]

While credible alternatives to the US dollar are unlikely to emerge in the near term, the uncertain transition to a multipolar currency world would imply higher transaction costs and the potential for greater financial instability, after all. In times of stress, the absence of a universally recognised safe-haven currency with deep and liquid capital markets could amplify volatility, as already seen in April 2025 when the dollar sharply depreciated and, at the same time, the yield on US Treasuries sharply swung up (Figure 3).

Figure 3 | 10Y US Treasury yield vs. US dollar



Source: Bloomberg.

[7] People's Bank of China (PBOC), *Payment System Report (2024)*, http://www.pbc.gov.cn/en/3688110/3688259/3689026/3706133/5188172/5649949/index.html.

[8] Zoe Liu Zongyuan, "China's De-Dollarization Initiative: Strategies and Constraints", in *IAI Papers* (June 2025), forthcoming.

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This rising uncertainty is reflected in the surging prices of gold and even Bitcoin. The former has reached new heights, driven by aggressive central bank purchases – particularly from China and Russia. Similarly, US-based Bitcoin exchange-traded funds (ETFs) have seen rising inflows amid regulatory tailwinds and financial market tensions. While their volatility disqualifies them as true safe-haven assets, their growing use as portfolio hedges signals increasing mistrust of the major reserve currencies.[9]

3. Multilateral cooperation on a collision course

The global institutional architecture – centred on the WTO, IMF and World Bank – has contributed significantly to decades of prosperity. However, it has failed to prevent rising economic imbalances among geopolitical rivals and growing domestic disruptions, including job losses, industrial relocation and concerns over cultural identity. These shortcomings have fuelled a resurgence of nationalism and a narrative that external forces are to blame for domestic challenges. As a result, many governments are now increasingly reluctant to support supranational institutions.

This trend is most evident in the United States. Long a proponent of free trade by its political leadership, it is now increasingly endorsing protectionism to restore perceived lost industrial power. New research on the interplay between geopolitics and trade suggests that some adaptation of WTO rules may be needed to maintain a rules-based trading system.[10] Yet, the United States appears more inclined to bypass the WTO, than reform it. The erosion of the WTO's authority began when, during the Obama Administration, the United States decided not to reappoint the US Appellate Body member for a second term.[11] The Trump Administration, in its first term, then refused to appoint any new member when members' terms expired – a decision that remained unaddressed under the Biden Administration.[12]

The Trump Administration has recently imposed country-specific tariffs in violation of the WTO's most-favoured-nation principle. It has also raised tariffs across the board, undermining the principle of "tariff bindings", namely WTO

[9] Sidhartha Shukla, "Bitcoin ETFs Pull in $9 Billion as Investors Ditch Gold Holdings", in *Bloomberg*, 29 May 2025, https://www.bloomberg.com/news/articles/2025-05-29/bitcoin-btc-etfs-pull-in-9-billion-as-investors-ditch-gold-holdings.

[10] Aaditya Mattoo, Michele Ruta and Robert W. Staiger, "Geopolitics and the World Trading System", in *NBER Working Papers*, No. 33293 (December 2024), https://www.nber.org/papers/w33293.

[11] Simon Lester, "Ending the WTO Dispute Settlement Crisis: Where to from Here?", in *IISD Policy Analysis*, 2 March 2022, https://www.iisd.org/node/16289.

[12] Members continue to resolve WTO disputes through consultations, panels and other means but cannot rely on Appellate Body of the Dispute Settlement Body (DSB). See WTO, *DG Azevêdo to Launch Intensive Consultations on Resolving Appellate Body Impasse*, 9 December 2019, https://www.wto.org/english/news_e/news19_e/gc_09dec19_e.htm.

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commitments that cap maximum tariff levels.[13] The authority of the Executive branch to impose tariffs has been challenged by a federal court, against which the Administration has, in turn, already appealed.[14] This has created a climate of legal and policy unpredictability which has generated considerable uncertainty in global markets and is likely to have both short- and long-term repercussions, as documented by the IMF.[15]

Tariffs are an ineffective tool to address legitimate concerns over persistent global imbalances. The IMF has long advocated policy coordination to address such imbalances. In principle, the remedy is straightforward: surplus countries should stimulate domestic-demand-led growth while deficit countries should increase domestic savings. For instance, Germany should stimulate European demand through increased public spending, China should boost domestic consumption by expanding social safety nets, and the United States should reduce its budget deficit. All countries should avoid currency manipulation.

While the spotlight often falls on China, the United States deserves equal, if not greater, scrutiny. Recent evidence suggests that US fiscal deficits, especially after the approval of the "Big Beautiful Bill" are now a larger driver of global imbalances than in the past.[16] Unfortunately, in a world of floating exchange rates, the IMF has limited enforcement capabilities. It can only advocate for policy adjustments through surveillance reports and consultations. This raises the questions: should the IMF's Articles of Agreement be revised to grant it stronger authority over domestic policies? Could other forums, such as the G20, play a more active role in monitoring and enforcing policy coordination?

The current US Administration's hostility toward international institutions is well documented. Project 2025 – the blueprint for many of its policy positions prepared by the right-wing Heritage Foundation think tank – calls for US withdrawal from the IMF and World Bank.[17] President Trump has also ordered a six-month review of US participation in international bodies, to be completed by 4 August.[18]

[13] Richard Baldwin, "New eBook: Trump's Great Trade Hack", in *VoxEU*, 19 May 2025, https://cepr.org/node/442960.

[14] David J. Ross et al., "IEEPA Tariff Litigation: What You Need to Know about the Federal Court Decisions Threatening the Trump Administration's Tariff Agenda", in *WilmerHale Insights*, 6 June 2025, https://www.wilmerhale.com/en/insights/client-alerts/20250605-what-you-need-to-know-about-the-federal-court-decisions-threatening-the-trump-administrations-tariff-agenda.

[15] IMF, *World Economic Outlook, April 2025: A Critical Juncture amid Policy Shifts*, 22 April 2025, https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025.

[16] Mark Sobel, "Today's Global Imbalances Aren't what They Used to Be", in *OMFIF Commentaries*, 30 May 2025, https://www.omfif.org/2025/05/todays-global-imbalances-arent-what-they-used-to-be.

[17] Project 2025, *Mandate for Leadership. The Conservative Promise*, Washington, Heritage Foundation, 2023, https://www.documentcloud.org/documents/24088042.

[18] White House, *Withdrawing the United States from and Ending Funding to Certain United Nations Organizations and Reviewing United States Support to All International Organizations*, 4 February 2025, https://www.whitehouse.gov/presidential-actions/2025/02/withdrawing-the-united-states-

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Despite this, there are reasons to believe the United States will maintain some level of engagement with the Bretton Woods Institutions. First, the BWIs are far from adversarial to US interests. The United States retains veto power over critical decisions and has historically exerted significant influence over their agendas. Indeed, critics often argue that the IMF and World Bank disproportionately serve US interests. Second, the IMF plays an indispensable role in managing global financial crises. A historical precedent comes from the early Reagan Administration (1981-1989), which sought to defund and downsize the IMF – only to reverse course during the 1982 Latin American debt crisis.[19] Similarly, in April 2025 the United States has backed the IMF's twenty-billion-dollar facility for Argentina, whose total IMF exposure of forty billion dollars is the largest on record.

In a recent speech, Treasury Secretary Scott Bessent declared that "America First seeks to expand U.S. leadership in international institutions like the IMF and World Bank [...] to restore fairness to the international economic system".[20] In another speech he declared that US "should not outsource decision making for the United States to international bodies".[21] This raises a broader question: can the America First doctrine coexist with institutions whose function is to preserve the global common good and whose legitimacy and funding rests on the confidence that they act in the interest of all their members?

One particularly contentious issue is climate policy. Bessent has criticised the BWIs for devoting "disproportionate time and resources" to issues such as climate change, gender and social inclusion. In his view the World Bank should be "investing in gas and other fossil fuel-based energy production".[22] In contrast, most member countries – especially in Europe – view climate action as integral to the BWIs' mandates to reduce poverty and ensure financial stability.

An equally sensitive topic is the representation of the Global South in multilateral institutions. The US, as the largest shareholder in the BWIs, has resisted major changes in voting shares. At the IMF, these shares are determined by quota allocations. It has been shown that if the current formula for calculating quotas were applied strictly, the US voting share would fall from 17.4 per cent to 13.99 per cent, eliminating its veto power. Meanwhile, China's share would rise from 6.08 to

from-and-ending-funding-to-certain-united-nations-organizations-and-reviewing-united-states-support-to-all-international-organizations.

[19] Robert H. Wade, "Will the IMF Survive Donald Trump's Presidency?", in *EUROPP Blog*, 11 February 2025, https://blogs.lse.ac.uk/europpblog/2025/02/11/will-the-imf-survive-donald-trumps-presidency.

[20] US Department of the Treasury, *Treasury Secretary Scott Bessent Remarks before the Institute of International Finance*, 23 April 2025, https://home.treasury.gov/news/press-releases/sb0094.

[21] US Department of the Treasury, *Treasury Secretary Scott Bessent Remarks before the American Bankers Association*, 9 April 2025, https://home.treasury.gov/news/press-releases/sb0078.

[22] US Department of the Treasury, *Treasury Secretary Scott Bessent Remarks before the Institute of International Finance*, cit.

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13.84 per cent, nearly matching that of the United States.[23]

Because less extreme alternatives to the strict implementation of the current formula exist, some redistribution of voting power is inevitable. This could also be an opportunity to review the graduation criteria used to classify the status of countries with respect to BWIs and the WTO. For example, China still receives World Bank loans, despite its being major global lender with full access to capital markets. It also claims "developing country" status at the WTO, which grants it preferential treatment – a benefit originally designed for low-income nations.[24]

4. Threats and opportunities of the digital revolution

There is little doubt that digital technologies are set to profoundly reshape the international monetary system. The stakes are certainly high. Some analysts, like Brunello Rosa and Casey Larsen go as far as arguing that whoever dominates the application of digital finance technologies will "decide the outcome of the geopolitical struggle between China and the US".[25]

The most widely known innovation has been the cryptocurrencies. Since Bitcoin's launch in 2009, a variety of crypto assets based on blockchain technologies have proliferated. Recently, attention has shifted to stablecoins – private digital payment instruments designed to maintain price stability by being backed with risk-free assets and redeemable in official currencies. These are viewed as more viable monetary instruments than Bitcoins, though they still raise regulatory and financial stability concerns. At the same time, many central banks are exploring the issuance of central bank digital currencies (CBDCs) as a digital alternative to cash, especially as the use of physical cash declines in retail payments. What gives all these instruments geopolitical relevance is not just the disruptive nature of the new technologies, but their potential to redefine global spheres of influence and monetary power.

The current Trump Administration considers CBDCs as a threat to "the stability of the financial system, individual privacy, and the sovereignty of the United States".[26] As an alternative, the United States has promoted dollar-based stablecoins, which have grown rapidly. The total stablecoin market cap now hovers around 250 billion

[23] Maia Colodenco, Maria Florencia Asef Horno and Marina Zucker-Marques, *A Challenging Imperative. IMF Reform, the 17th Quota Review and Increasing Voice and Representation for Developing Countries*, Boston University Global Development Policy Center 2025, https://www.bu.edu/gdp/?p=30305.

[24] Mark A. Green, "China Still Gets 'Developing Nation' Preferential Treatment", in *Stubborn Things Blog*, 20 June 2023, https://www.wilsoncenter.org/node/114522.

[25] Brunello Rosa and Casey Larsen, *Smart Money*, London, Bloomsbury, 2024.

[26] White House, *Strengthening American Leadership in Digital Financial Technology*, 23 January 2025, https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology.

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dollars, and stablecoin issuers have become notable purchasers of US Treasury securities – collectively holding nearly 0.5 per cent of the 35 trillion dollars US debt. If this trend continues, they could rank among the top five foreign holders of US debt within a decade.[27] The US Congress has recently proposed a legislation, called GENIUS Act to establish a regime to regulate stablecoins.[28] It has also proposed another legislation, the "Stable act" which would allow stablecoins issued by foreign payment stablecoin to be offered and sold in the US under certain conditions, determined by the Treasury Secretary.[29]

These developments carry significant implications for fiscal policy, central banking and financial stability. As stablecoin issuers hold Treasury debt, their growth could facilitate the funding of the debt. However, it could also raise problems of monetary control. While for bank money the total stock of money in circulation depends on the quantity of central bank money, or 'base money', supplied by the Federal Reserve in response to banks' demand, for "stablecoin money" it would depend on the volume of short-term debt issued by the US Government.

Another signal of US support for digital assets is the proposed creation of a Strategic Bitcoin Reserve – a digital asset stockpile, discussed in this research project by Nicola Bilotta and Andrew Whitworth.

China, by contrast, has been proactive in developing and deploying a CBDC which has stimulated huge investments in cutting-edge fields like distributed ledger technology (DLT), quantum computing and artificial intelligence. The Digital Yuan serves not only to counterbalance private digital currencies domestically but also to offer alternatives to the US dollar in cross-border trade. However, concerns that the Digital Yuan could serve to increase the regime's control on citizens and businesses activities may limit its actual adoption.

China uses the CBDC also to promote regional alliances. One of the most significant initiatives, in this respect, is Project mBridge, a multi-CBDC platform based on DLT which enables real-time cross-border payments and settlement.[30] This platform initially involved the central banks of China, Thailand, the United Arab Emirates and Hong Kong. In 2024, Saudi Arabia also joined. Although the Bank for International Settlements (BIS) Innovation Hub helped launch mBridge in 2021, but then withdrew in October 2024, claiming the project had reached a minimum viable product stage. However, speculation suggests the BIS stepped

[27] Matthew Kimmell, "Stablecoins Are a Growing Force in Global Finance", in *CoinShares*, 21 November 2024, https://coinshares.com/corp/insights/research-data/stablecoins-are-a-growing-force-in-global-finance.

[28] Paul Tierno, "Stablecoin Legislation: An Overview of S. 919, GENIUS Act of 2025", in *CRS Insights*, 19 May 2025, https://www.congress.gov/crs-product/IN12522.

[29] US Congress, *H.R.2392 - STABLE Act of 2025*, https://www.congress.gov/bill/119th-congress/house-bill/2392/text.

[30] BIS Innovation Hub, *Project mBridge Reached Minimum Viable Product Stage*, updated 11 November 2024, https://www.bis.org/about/bisih/topics/cbdc/mcbdc_bridge.htm.

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away, due to concerns that mBridge could be used to circumvent Western sanctions – underscoring the geopolitical tensions embedded in digital finance.

Europe has taken a different path. In late 2024 it adopted the Markets in Crypto-Assets Regulation (MiCAR), which introduces significant requirements and restrictions that impact the issuance of stablecoins. The ECB began work on a digital euro in 2020 and will soon complete the preparatory phase.[31] A key objective is to avoid "digital dollarisation," which could undermine the euro's monetary sovereignty. MiCAR regulation could also be strengthened to limit the risk of loss of monetary sovereignty.

European authorities are indeed concerned that widespread adoption of stablecoins could weaken demand for central bank money and erode central banks' capacity to control monetary policy and preserve financial stability.[32] If stablecoins failed to maintain parity with official currencies during crises, as has happened in the past, they could break the one-to-one substitutability between public and private money.[33] Furthermore, a stress episode could force stablecoin issuers to aggressively liquidate government bonds and to "break the buck", an expression used for money market funds (MMF) to indicate that the value of the assets held by MMF falls below that of the liabilities because of the request of redemptions, as it happened during the 2008 financial crisis.[34]

In principle, the application of new digital technologies could facilitate the integration of different financial systems, reduce divergence of prices and transaction costs. This would however require interoperability among various systems, which means not only technological compatibility but also legal and regulatory alignment. In the area of blockchains, bridges are being developed to connect various blockchains. However, interoperability remains suboptimal, undermining the principle of singleness of money. A recent study has shown that the average correlation of prices between a stablecoin on one blockchain and its bridged version on another blockchain is consistently low.[35] Users could adopt "multi-homing", by participating in multiple platforms simultaneously. This is already happening in the payments space, where several global banks use China's CIPS and the European Systemically Important Payment System (SIPS),

[31] Piero Cipollone, *Empowering Europe*, cit.

[32] Philip R. Lane, *The Digital Euro: Maintaining the Autonomy of the Monetary System*, speech at the University College Cork Economics Society Conference 2025, Cork, 20 March 2025, https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250320_1~41c9459722.en.html.

[33] Tommaso Padoa-Schioppa, *Shaping the Payment System: A Central Bank's Role*, speech at the Bank of Korea's Conference on Payment Systems, Seoul, 13 May 2004, https://www.ecb.europa.eu/press/key/date/2004/html/sp040513_1.en.html. See also Rodney Garratt and Hyun Song Shin, "Stablecoins versus Tokenised Deposits: Implications for the Singleness of Money", in *BIS Bulletin*, No. 73 (11 April 2023), https://www.bis.org/publ/bisbull73.htm.

[34] Douglas Rice, "Why Money Market Funds Break the Buck", in *Investopedia*, 15 April 2024, https://www.investopedia.com/articles/mutualfund/08/money-market-break-buck.asp.

[35] Jon Durfee et al., "Interoperability of Blockchain Systems and the Future of Payments", in *Liberty Street Economics Blog*, 27 March 2025, https://libertystreeteconomics.newyorkfed.org/?p=34164.

both of which comply with the International Standard Organization or ISO 20022 messaging standard. However, from a safety and efficiency standpoint, multi-homing is much inferior to full interoperability.

Conclusion

The global financial system is entering a period of profound uncertainty. Confidence in the US dollar is eroding, driven by escalating trade tensions, the expanded use of sanctions and doubts about the consistency of US policy and the trajectory of US debt. Yet no other currency is prepared to assume a dominant international role.

The aggressive policies of the current US Administration will accelerate efforts of other major economies to pursue greater monetary autonomy. The EU has a unique opportunity to overcome the institutional barriers that have hindered the euro's international role – such as the absence of a common safe asset and an incomplete banking union. Similarly, growing political tensions with the United States may push China toward a domestic-demand-driven growth model and increased use of the RMB in trade invoicing.

In principle a multipolar currency system could make market discipline work more symmetrically and reduce the extraordinary influence that one country exerts over the rest of the world. However, in the immediate foreseeable future, a more likely outcome may be a fragmented international monetary system without a universally accepted safe asset to use in times of crisis. This scenario would likely bring greater volatility in foreign exchange markets and a higher risk of financial instability. In such a system, we may also witness repeated "boom-and-bust" cycles in alternative assets such as cryptocurrencies or gold.

In this context, international cooperation must be strengthened, not weakened. The recent disruptions caused by the trade war provide compelling reasons for returning to a universally recognised, rules-based trading system. While these rules may require updates, the WTO – or a reformed version of it – should be reaffirmed as the principal forum for negotiating and enforcing them. If trade conflicts exacerbate macroeconomic imbalances, as many analysts expect, there will also be a critical role to play for the IMF and the G20 to more actively coordinate macroeconomic adjustments and, reduce global imbalances.

Enhanced cooperation will also be vital for enabling the Bretton Woods Institutions to address global challenges, such as climate change. This will require reconciling increasingly divergent views among major economic powers, especially between the United States and Europe.

Recent developments have called into question legal principles underpinning the current fiduciary monetary system, such as the sovereign immunity of central

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bank reserves. In a future international order, new consensus-based rules may be required to govern the economic instruments that nations can employ during conflict, just as the Geneva Conventions established norms for warfare.[36]

Finally, as emerging technologies offer transformative opportunities for financial and monetary innovation, it is essential that technological, legal and regulatory frameworks be designed to ensure orderly coexistence and high interoperability across financial ecosystems and across different jurisdictions. This would help to prevent the "digital fragmentation" of the global system and preserve its integration and resilience.

Updated 11 June 2025

[36] Some work in this direction has been carried forward by the World Economic Forum, which has recently published a study on possible guidelines for policies "that protect national security and sovereignty without reducing global prosperity". See World Economic Forum and Oliver Wyman, "Navigating Global Financial System Fragmentation", in *World Economic Forum Insights Reports*, January 2025, https://www.weforum.org/publications/navigating-global-financial-system-fragmentation.

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List of acronyms

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BWIs	Bretton Woods Institutions
CDBC	Central bank digital currency
CIPS	Cross-Border Interbank Payment System
DLT	Distributed ledger technology
ECB	European Central Bank
EFSF	European Financial Stability Facility
EIB	European Investment Bank
ESM	European Stability Mechanism
ETF	Exchange-traded fund
EU	European Union
FSB	Financial Stability Board
GDP	Gross domestic product
IG	Investment grade
IMF	International Monetary Fund
MiCAR	Markets in Crypto-Assets Regulation
MMF	Money market fund
PBOC	People's Bank of China
RMB	Chinese renminbi
SIPS	Systemically Important Payment System
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TINA	There Is No Alternative
US	United States
WB	World Bank
WTO	World Trade Organization
WWII	World War II

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