

Features and Fragilities of the International Monetary System: Comment

Barry Eichengreen
May 22, 2026

- There is much with which to agree in this fine paper.
- But rather than rehash its arguments, I will try to keep things lively by highlighting a few aspects where I disagree.

Eswar writes:

- “By some measures...the primacy of the dollar has hardly been affected by U.S. economic policies and political dysfunction, the erosion of U.S. institutions, or the weaponization of the dollar through financial sanctions.”
- True, but past performance is no guarantee of future returns (as they say in the advisory business).
- There is a tremendous amount of history suggesting that international currency status does not remain immune from such factors indefinitely.

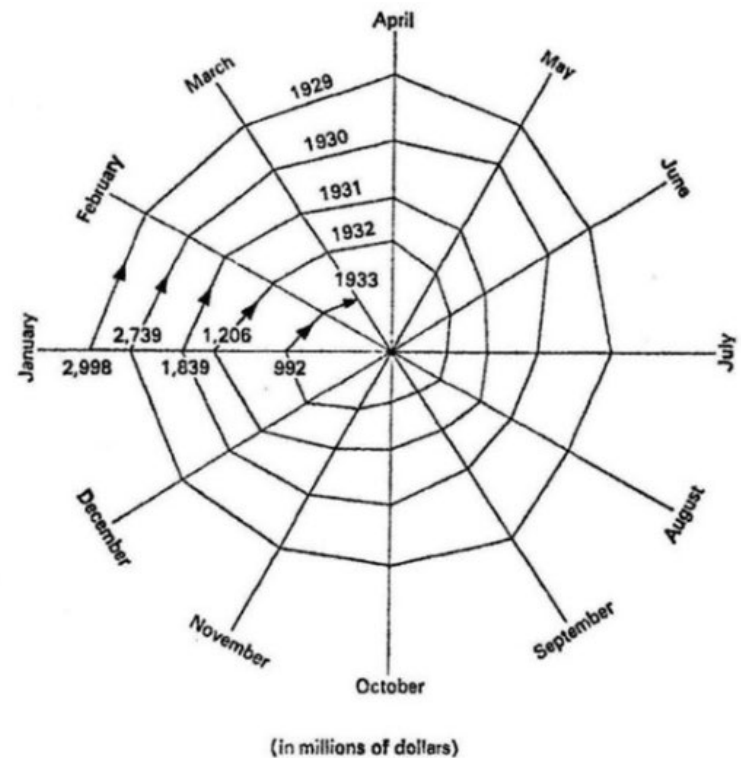
Reasons to worry

- Share of global reserves held in dollars has declined from a bit more than 70% at the turn of the century to a bit less than 60% today.
- Share of U.S. Treasuries held abroad has fallen since the Global Financial Crisis.
- Convenience yield on U.S. Treasuries has fallen.
- (Convenience yield on other dollar-denominated assets hasn't fallen, but reserve managers and others don't hold these other assets.)
- That there have been continued financial inflows into the U.S. (into AI-related companies) tells us something about the U.S. economy, but it doesn't obviously tell us anything about the international monetary system.
- And the dollar's safe haven status has experienced hiccups.

Moreover, TINA provides no reassurance

- Just because there is no alternative at scale does not preclude a crisis of confidence in the dollar.
- We have seen this scenario before, in the 1930s.
- Globalization as we know it would then be at risk.

*The contracting spiral of world trade, January 1929–
March 1933: Total imports of 75 countries (monthly values in
terms of old U.S. gold dollars [millions]).*



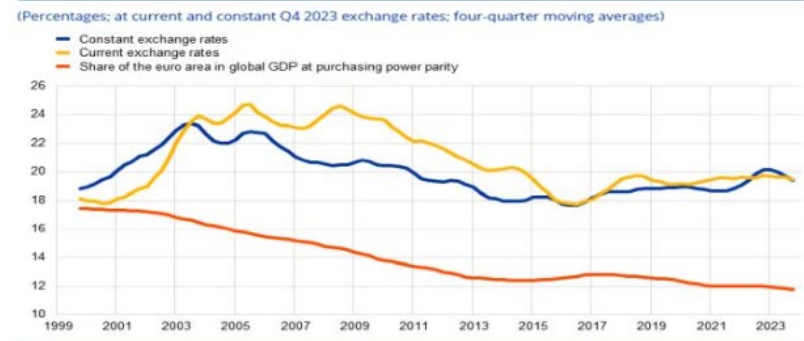
As diversification alternatives to the dollar:

- The paper says almost nothing about the euro.
 - Perhaps appropriately for a conference focused on Asia?
- It downplays the role of the RMB.
- As alternatives it emphasizes gold and stablecoins.
- This exaggerates the risk from stablecoins, in my view.
- And it underplays other alternatives (nontraditional reserve currencies, linked fast payment systems, tokenized bank deposits, CBDCs).

The euro

- Created to provide an international alternative to the dollar, but it has been something of a damp squib.
 - Existential doubts.
 - Shortage of safe assets.
 - Markets in these safe assets are illiquid.
 - Little ability to project power internationally.

Figure 1
Composite index of the international role of the euro and share of the euro area in global GDP.



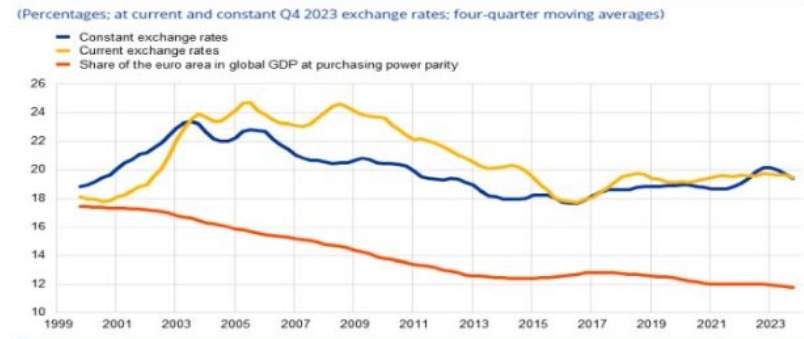
Source: 2024 review of *The international role of the euro*, p. 3.

Notes: Arithmetic average of the shares of the euro at current and constant exchange rates in stocks of international bonds, loans by banks outside the euro area to borrowers outside the euro area, deposits with banks outside the euro area from creditors outside the euro area, global foreign exchange settlements, global foreign exchange reserves and global exchange rate regimes. The shares of the euro at constant exchange rates are obtained by deflating the shares at current exchange rates by the exchange rate prevailing at the end of 2023.

This might now change

- Plenty of proposals out there for the EU (European Commission) to issue safe assets.
 - Though national governments continue to resist.
- Capital markets union project is being pursued.
 - Though it is resisted by special interests (in inter alia Ireland and Luxembourg) that seek to keep regulation at home.
- There is a new sense of urgency around creating a defense union.
 - Though EU countries continue to produce 11 national varieties of tanks.
- Will anything happen?
 - Maybe, but not quickly.

Composite index of the international role of the euro and share of the euro area in global GDP.



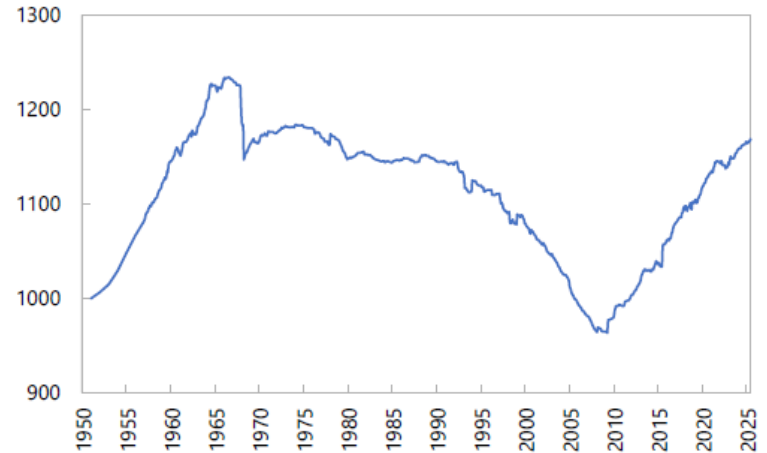
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On gold

- “Central bank accumulation of gold creates risk of a price fall in a financial crisis when central banks need foreign currency liquidity.” I agree.
- But that’s not all:
 - Awkward for use in payments.
 - Can’t be lent, used as collateral when vaulted at home.

Gold Holdings in Official Reserve Assets, 1950-2025
(Million fine troy ounces)

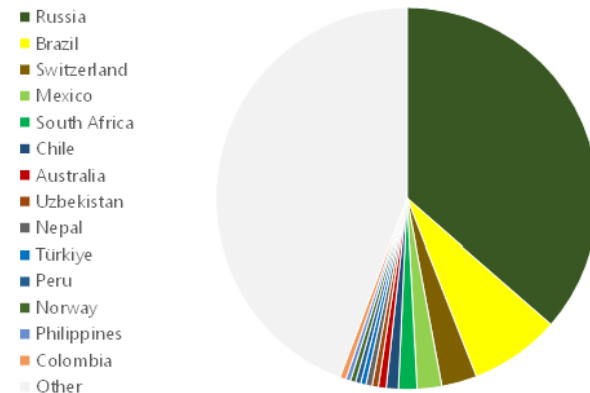


Source: Arslanalp, Eichengreen, and Simpson-Bell (2023, updated).

On the RMB

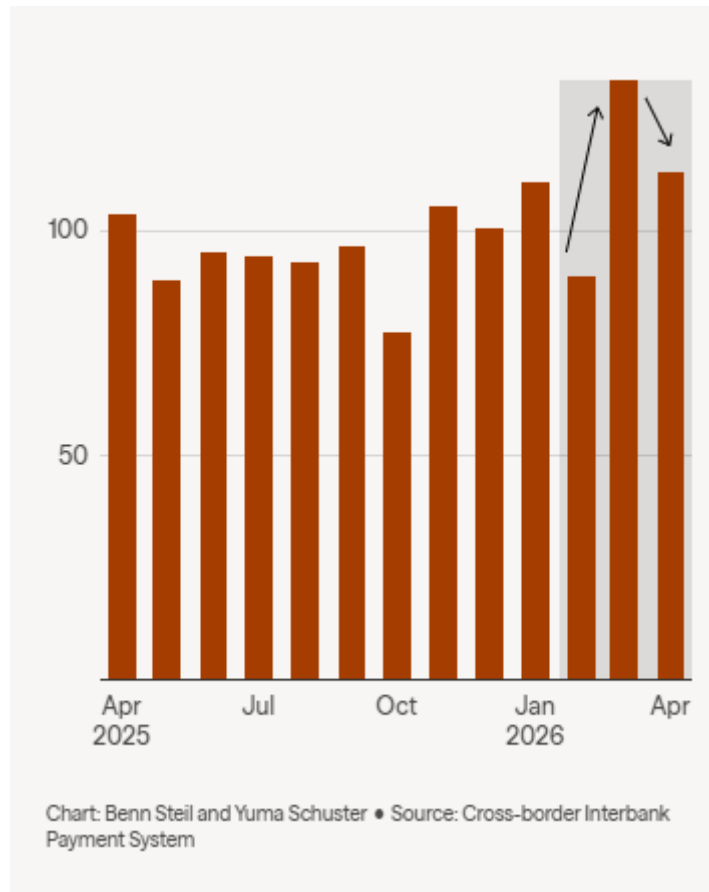
- It's share of global reserves has been falling since 2022 Q1.
- Much of its reserve share is accounted for by one country, Russia.
- Payments through CIPS were stagnant in 2025.
- And as Eswar notes, most payments through CIPS are picked up by SWIFT data, since most CIPS participants still use SWIFT messaging.

Countries Holding Chinese Renminbi in Official Reserves
(as a share of all RMB holdings in reserves, end-2025 or latest)



Sources: IMF COFER, IMF Reserve Data Temple, and Arslanalp, Ito, Gomis, Lauwers, and Mehl (forthcoming).
Note: The chart shows countries that report holding US\$1 billion or more of RMB in reserves. Data for the Philippines and Uzbekistan are for end-2024. Data for Nepal, Russia, South Africa are for Jul 2024, Dec 2021 and Mar 2024, respectively.

On the interesting recent behavior of CIPS



On nontraditional reserve currencies

- Figure at right is for end-2024.
- These account for $\frac{3}{4}$ of the global reserve share lost by the dollar in the last 25 years.
- Digital technology makes holding and using these non-traditional alternatives more economical.
 - Evident in bid/ask spreads.
- Though they lack the scale to fully replace the dollar.

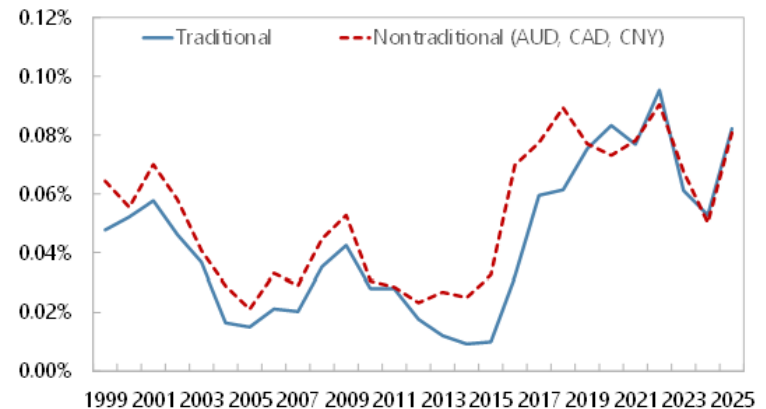
	in bil US\$	as % of Total
Total	1357	100%
Australian dollar	236	17%
Canadian dollar	318	23%
Chinese renminbi	250	18%
Swiss franc	20	1%
Other	533	39%
Korean won	161	12%
Singapore dollar	128	9%
Swedish krona	81	6%
Norwegian krone	74	5%
Danish krone	35	3%
New Zealand dollar	30	2%
Hong Kong dollar	24	2%

Sources: IMF, COFER and CPIS.

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Bid-Ask Spreads of Reserve Currencies, 1999-2025
(in percent for transactions against the U.S. dollar)



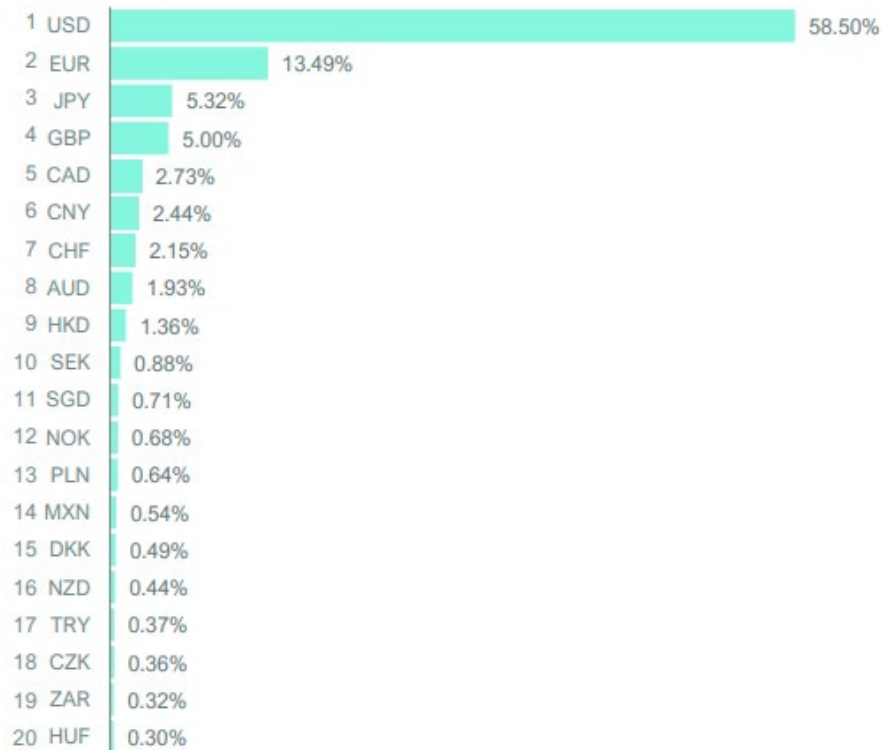
Source: Bloomberg.

Note: Traditional currencies include EUR, JPY, GBP. Nontraditional currencies include AUD, CAD, CNY.

But they are coming in the payments sphere as well

International payments currency - Excluding payments within Eurozone

March 2026



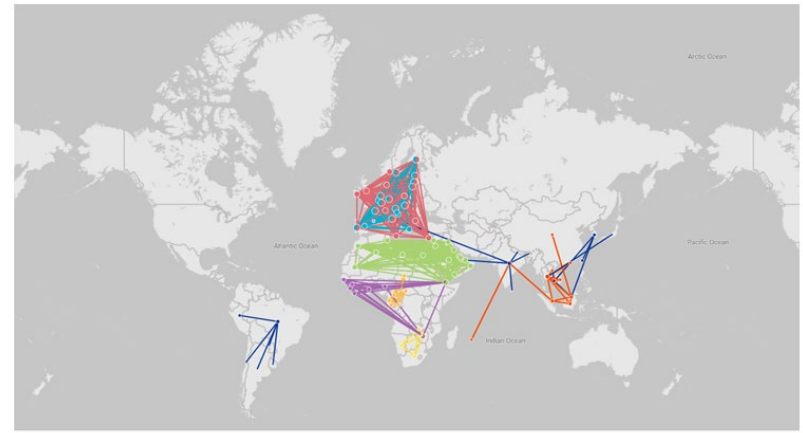
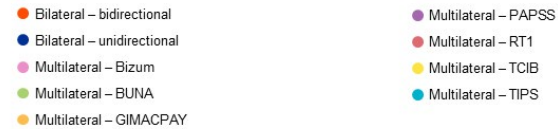
On stablecoins

- “Stablecoins backed by major corporations such as Amazon and Facebook are likely to gain traction as means of payment.”
- I agree with this.....except I would change “likely” to “unlikely.”
 - Stablecoins may not be stable.
 - Stablecoins may not be fungible (may violate the principle of “*singleness of money*”).
 - There is a lack of recourse.
- In addition, where Eswar emphasizes the risk to EMDEs, I would emphasize the risk to the U.S. Treasury market.

Eswar writes:

- “National currencies issued by EMDEs could lose ground to private stablecoins and perhaps also to CBDCs issued by major economies.”
- Ignores direct local currency settlement initiatives for retail transactions.
- Ignores direct local currency settlement initiatives for wholesale transactions.

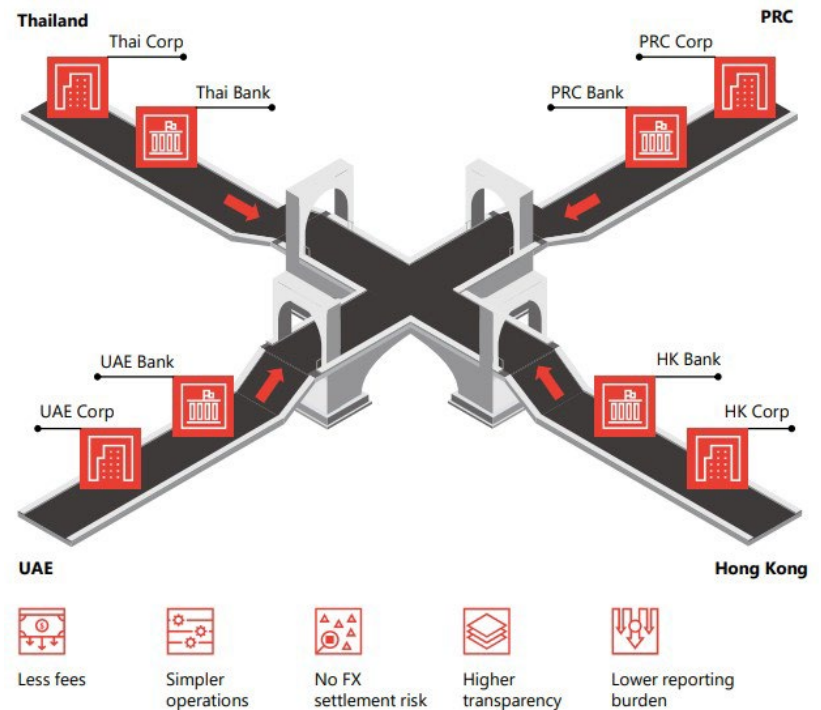
Cross-border connections between fast payment systems



Source: Ferrari Minesso et al. (2025).

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Inthanon-LionRock and mBridge Model



Finally, on reserve pooling or global liquidity insurance

- That holding large foreign reserves is costly has been on the international community's mind since reserve accumulation following the Asian Financial Crisis.
- There have been various reserve-pooling initiatives.
- But govs in practice have been reluctant to actually pool a significant fraction of their reserves and to actually utilize these mechanisms (CMIM).
- Lack of confidence in their partners? Would they have greater confidence in the BIS?

Forthcoming, *International Economic Journal*

THE SOCIAL COST OF FOREIGN EXCHANGE RESERVES¹

Dani Rodrik
Harvard University
January 2006

I. Introduction

Financial globalization has been accompanied by frequent and painful financial crises. Since the debt crisis of 1982, which engulfed practically all countries of Latin America, a new financial upheaval has erupted in some part of the developing—and occasionally industrial—world with alarming regularity. Some of the better known blowups include Mexico in 1995, East Asia in 1997, Russia in 1998, Turkey in 1994 and 2001, Brazil in 1999, and Argentina in 2002. These crises have spawned a huge literature examining their causes. And they have forced policy makers to look for protective strategies.

As Martin Feldstein (1999) concluded in the aftermath of the Asian financial crisis, developing countries cannot rely on the International Monetary Fund or reforms in the “international financial architecture” to protect themselves from such crises. Nor, Feldstein reasoned, is it enough to rely on sound macroeconomic policies, since even well-managed countries can be hit by contagion from elsewhere. The key, according to Feldstein was self-protection through increased liquidity. Countries with higher (net) levels of liquid foreign assets are better able to withstand panics in financial markets and sudden reversals in capital flows. Therefore they may not only reduce the costs of financial crises, they may also make such crises

¹ Paper prepared for presentation at the American Economic Association meetings in Boston, January 2006. I am grateful to Jeffrey Frankel and Ricardo Hausmann for helpful conversations, to Ken Froot, Bob Hormats, Rick Mishkin, Helene Rey, and Federico Sturzenegger for comments, and to Joe Stiglitz for his insistence that I write this paper. After this paper was prepared and presented, I became aware of the closely related work by Baker and Walentin (2001), which I am happy to acknowledge.

- “I conclude by discussing the two unsavory alternatives the world faces: continued dollar dominance versus a fragmented currency system.”
- Should we say “fragmented” or (more positively) “multipolar”? Also more positively, how about “diversified”?
- Advantages of an overlapping, diversified set of global liquidity providers are equivalent to the advantages to Planet Earth of a diverse ecosystem.
- Will such a system be unstable? We have seen instances of both stability and instability.
- The answer depends on underlying policies.
- And the outcome will depend also on whether the transition is gradual or abrupt.

- Thank you.