Shifting global currency power and risk

The dollar and the euro in a changing world

Guest lecture | Dr. Konstantinos Gravas
with Prof. Ioanna Sapfo Pepelasis

ERASMUS+ Programme
Department of Economics
Athens University of Economics & Business (AUEB)
March 4th, 2026

Background

The International Financial System, Central Banks, and ‘Monetary Peace’

Discussion points

1. The evolution of central banks as powerful institutions in the international economic system.

2. The institutional arrangements that shaped monetary policy and led to the successful implementation of ‘monetary peace’ by the leading central banks (mainly the Fed and the ECB) after the Great Recession.

3. Central banks’ cooperation has led to a new paradigm of ‘monetary peace’ in the aftermath of the Great Recession. in 2008-9.

Central Banks: From the classic Bagehot (1873) dictum that '*…central banks should address panics by lending freely at a penalty rate*', (Bernanke 2013) to monetary policy cooperation.

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Powerful Institutions: CBs independency played an important role in the modern design of monetary policy in response to the '*Great Recession*' after Lehman bankruptcy and the perceived risk of the '*imminent collapse of the global financial system*' (Bernanke 2009).

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Letter Added

Letter: Rising debt reflects advent of 'monetary peace'

From Konstantinos Gravas, Department of History and Philosophy of Sciences, National and Kapodistrian, University of Athens, Greece

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'The Signing of Peace in the Hall of Mirrors', by Sir William Orpen (detail)

Published OCT 29 2020

2

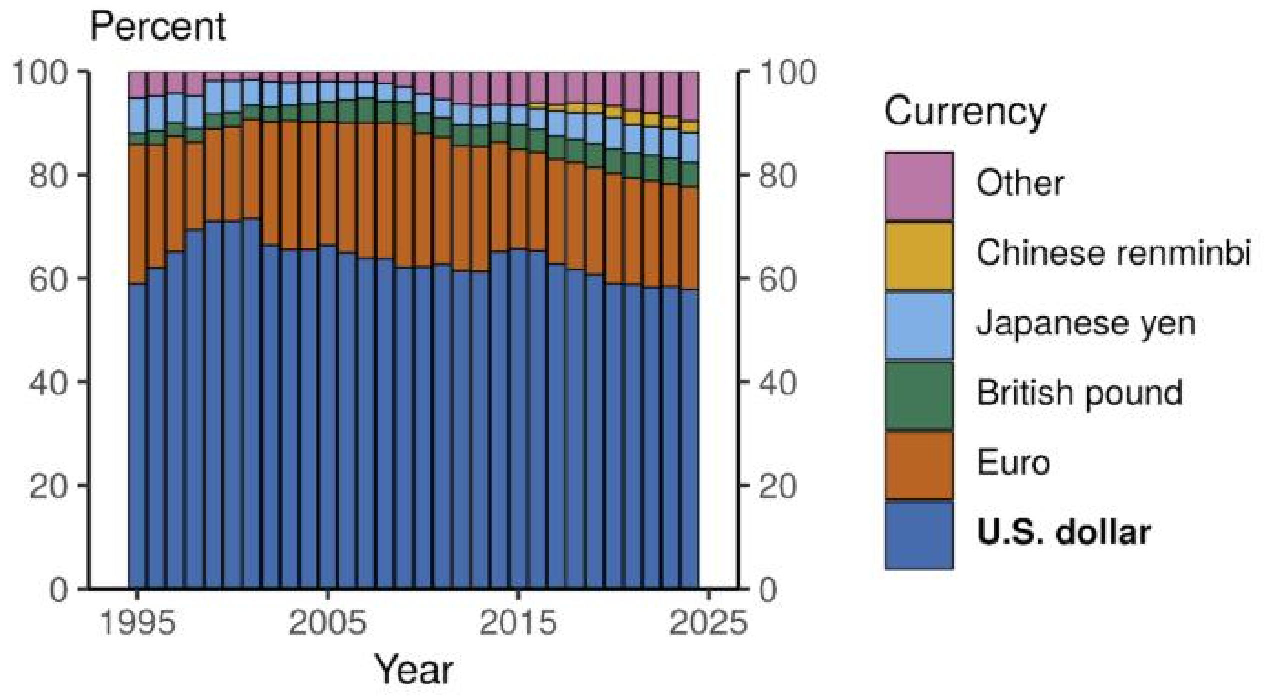
"Since the great financial crisis, central banks' successful co-operation formed a new paradigm of '*monetary peace*'; the co-ordinated actions of the US, Germany and China aiming to preserve the greenback's *exorbitant privilege*, thus preserving the pre-crisis global monetary regime."

The International Role of the U.S. Dollar (Fed, 2025 Edition)

“The dollar rose to prominence after the financial crisis associated with World War I, then solidified its international role after the Bretton Woods Agreement in 1944.”

“There is widespread confidence in the U.S. dollar as a store of value”

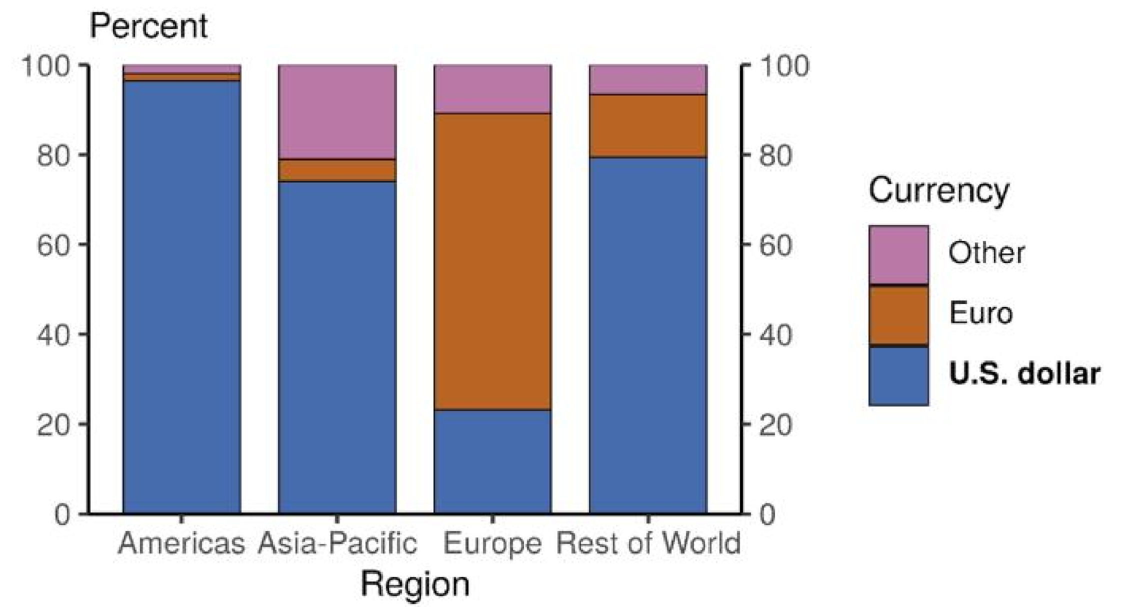
Figure 2. Foreign exchange reserves



Note: Share of globally disclosed foreign exchange reserves. Data are annual and extend from 1995 through 2024. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.
Source: IMF COFER.

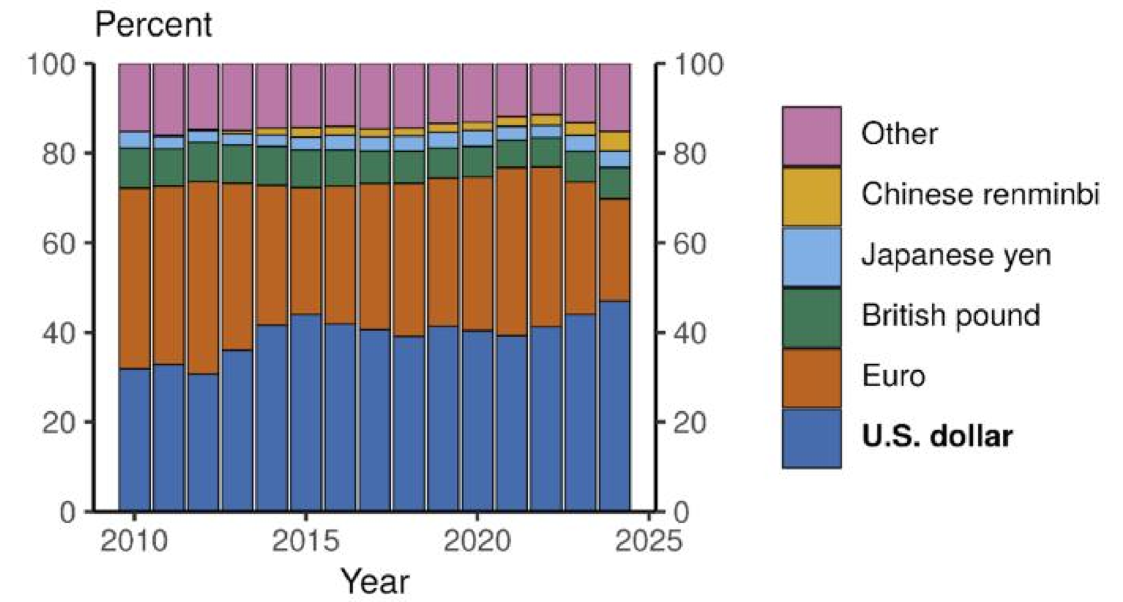
“The U.S. dollar remains dominant in international transactions and financial markets”

Figure 7. Share of export invoicing



Note: Average annual currency composition of export invoicing, where data are available. Data extend from 1999 through 2019. Regions are those defined by the IMF. Legend entries appear in graph order from top to bottom. The value for Europe includes within-euro area trade.
Source: IMF Direction of Trade; Central Bank of the Republic of China; Boz et al. (2020); Board staff calculations.
Accessible version

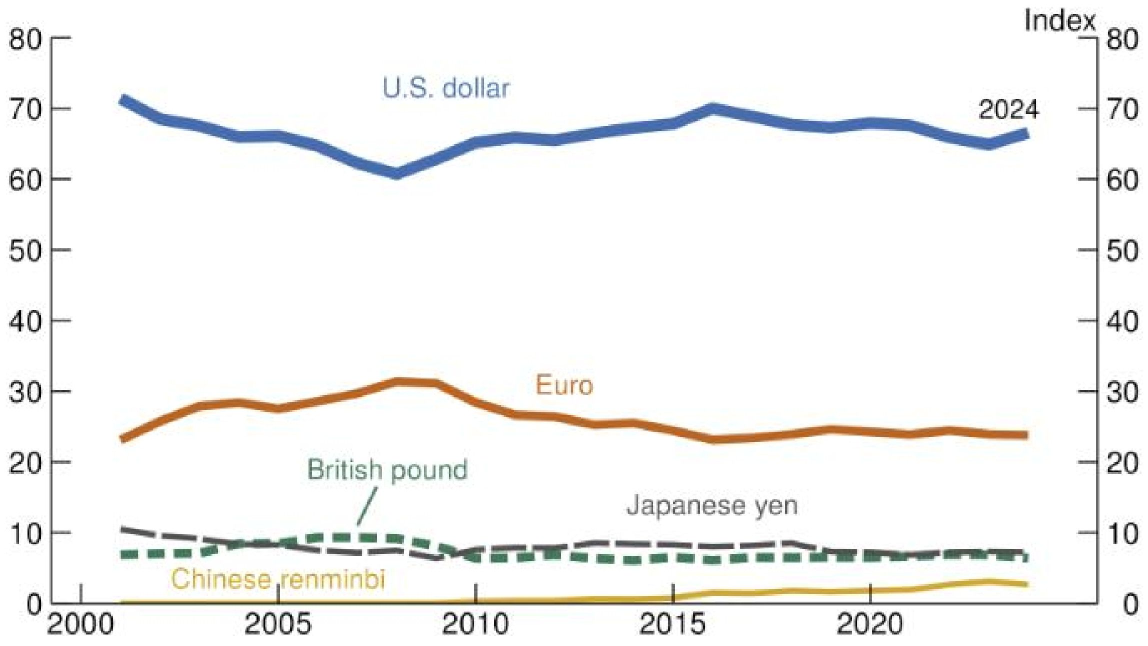
Figure 8. Share of international payments



Note: Share of international payments on SWIFT (based on MT 103 and MT 202, customer initiated and institutional payments). Does include intra-euro area payments. Data are annual and extend from 2010 through 2024. Legend entries appear in graph order from top to bottom.
Source: SWIFT, Bloomberg Finance LP.
Accessible version

“Overall, U.S. dollar dominance has remained stable over the past 20 years”

Figure 12. Index of international currency usage



Note: Index is a weighted average of each currency's share of globally disclosed FX reserves (25 percent weight), FX transaction volume (25 percent), foreign currency debt issuance (25 percent), foreign currency and international banking claims (12.5 percent), and foreign currency and international banking liabilities (12.5 percent). Because our data on foreign currency debt issuance only becomes available in 2005, we fill back the 2005 value to previous years.
Source: IMF COFER; BIS Triennial Central Bank Survey of FX and OTC Derivatives Market; LSEG Data & Analytics; BIS locational banking statistics; Board staff calculations.
Accessible version

“Possible challenges to the U.S. dollar's status”

- **Increased European integration**, as the European Union (EU) is a large economy with fairly deep financial markets, generally free trade, and robust and stable institutions. If **fiscal integration** progresses and a large, **liquid market for EU bonds develops**, the euro could become more attractive as a reserve currency.

- The continued rapid growth of **China**, which is by far the world's largest exporter, though it lags the United States by value of imports.

- A shifting payments landscape. For example, the rapid growth of **digital currencies**, both private sector and official, could reduce reliance on the dollar.

- Several commentators argued that **sanctions** imposed by the United States and its allies on Russia following the invasion of Ukraine would make the U.S. dollar less attractive as a reserve currency as **geopolitical adversaries** fear exposure to U.S. sanctions.

Where the dollar's risk comes from

Dominance is an advantage -- but also a source of possible global spillovers...

Fiscal capacity & debt dynamics

Long-term debt trajectories affect the "safe asset" premium.

Politics & institutional credibility

Reserve currency status relies on stable institutions (central bank independence, rule of law).

Sanctions & "weaponization" concerns

The freezing of sovereign reserves is a tail-risk for adversaries. Evidence so far: dollar reserve share is broadly unchanged since 2022, but gold's reserve share has risen (largely price-driven).

Technology: digital currencies & stablecoins

Dollar-based stablecoins can extend USD reach, but also create new run/oversight risks.

My take...

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Letter Added

Letter: A strong dollar is the key to trading in Trump era

From Konstantinos Gravas, PhD, Department of History and Philosophy of Sciences, University of Athens (NKUA), Athens, Greece

Published DEC 16 2024

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- First, American exceptionalism will be vulnerable if **geopolitical shocks** occur or Trump policies shift towards **trade or monetary wars** — upending the “monetary peace”.

- Second, if the U.S. administration’s policies aim to weaken the dollar, impose inflationary tariffs, deliver massive tax cuts, and reduce Federal Reserve independence then the risk to the dollar’s global hegemony would be reflected in higher risk premia on US Treasuries amid **a further rising in US public debt**.

- Third, **hedging (e.g. via gold purchases)** might prove a prudent trading strategy <u>**in case of a continuously stealthy, or a less stealthy, erosion of dollar dominance in the global financial system**</u>.

The International Role of the Euro (ECB, 2025 Edition)

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."
--Mario Draghi, 26 July 2012

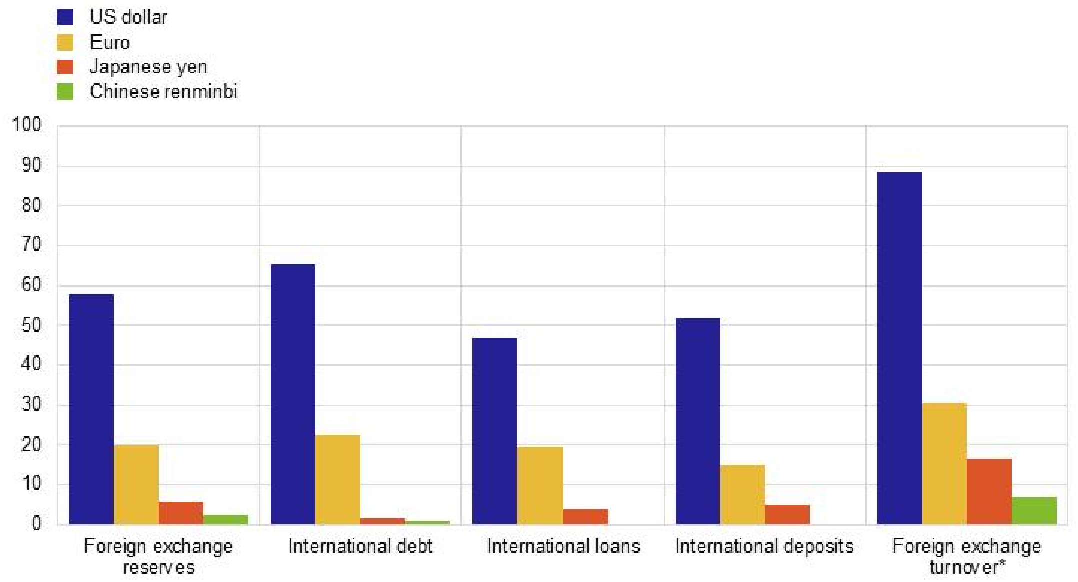
Snapshot: The euro remained #2

Chart 2

The euro remained the second most important currency in the international monetary system

Snapshot of the international monetary system

(percentages)



Sources: BIS, IMF, CLS Bank International, Ilzetzki, Reinhart and Rogoff (2019) and ECB staff calculations.
Notes: The latest data on foreign exchange reserves, international debt, international loans and international deposits are for the fourth quarter of 2024. Foreign exchange turnover data are as of April 2022 (the latest available data as they come from a triennial survey). *Since transactions in foreign exchange markets always involve two currencies, foreign exchange turnover shares add up to 200%.

Stable euro...

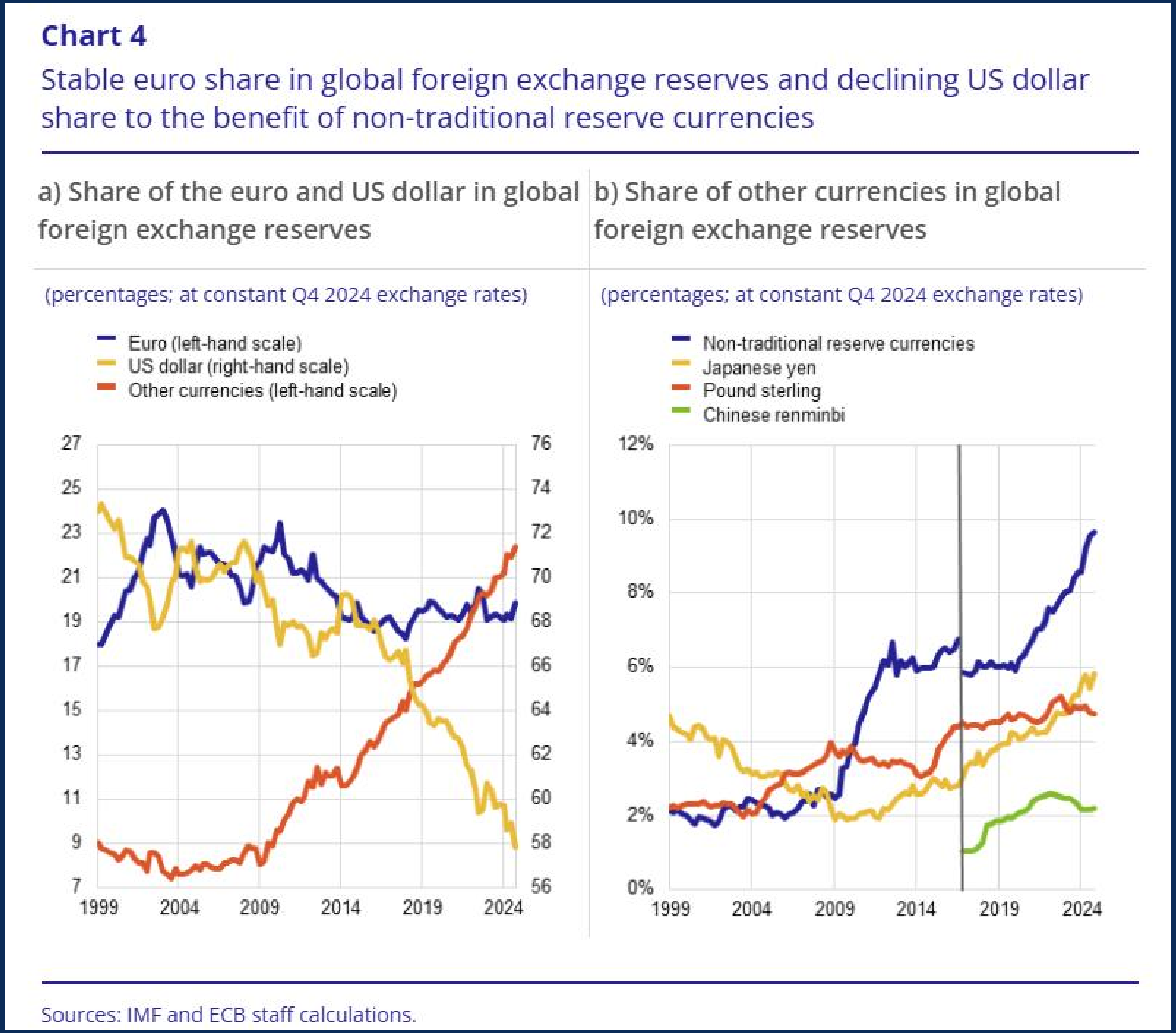


Chart 4
Stable euro share in global foreign exchange reserves and declining US dollar share to the benefit of non-traditional reserve currencies
a) Share of the euro and US dollar in global foreign exchange reserves
(percentages; at constant Q4 2024 exchange rates)
Euro (left-hand scale)
US dollar (right-hand scale)
Other currencies (left-hand scale)
27
25
23
21
19
17
15
13
11
9
7
76
74
72
70
68
66
64
62
60
58
56
1999
2004
2009
2014
2019
2024
b) Share of other currencies in global foreign exchange reserves
(percentages; at constant Q4 2024 exchange rates)
Non-traditional reserve currencies
Japanese yen
Pound sterling
Chinese renminbi
12%
10%
8%
6%
4%
2%
0%
1999
2004
2009
2014
2019
2024
Sources: IMF and ECB staff calculations.

Shining gold...

Chart 7

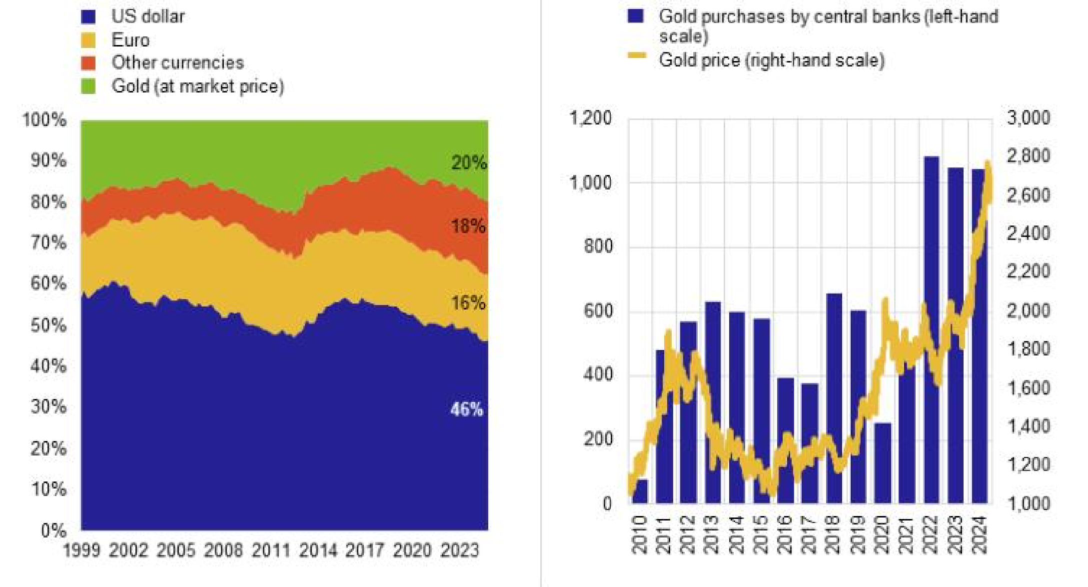
Higher share of gold in global foreign reserves driven by both record-high purchases and rising prices

a) Composition of global official reserves

(percentages, at current market prices)

b) Central bank gold purchases and price of gold

(tonnes; US dollars per troy ounce)

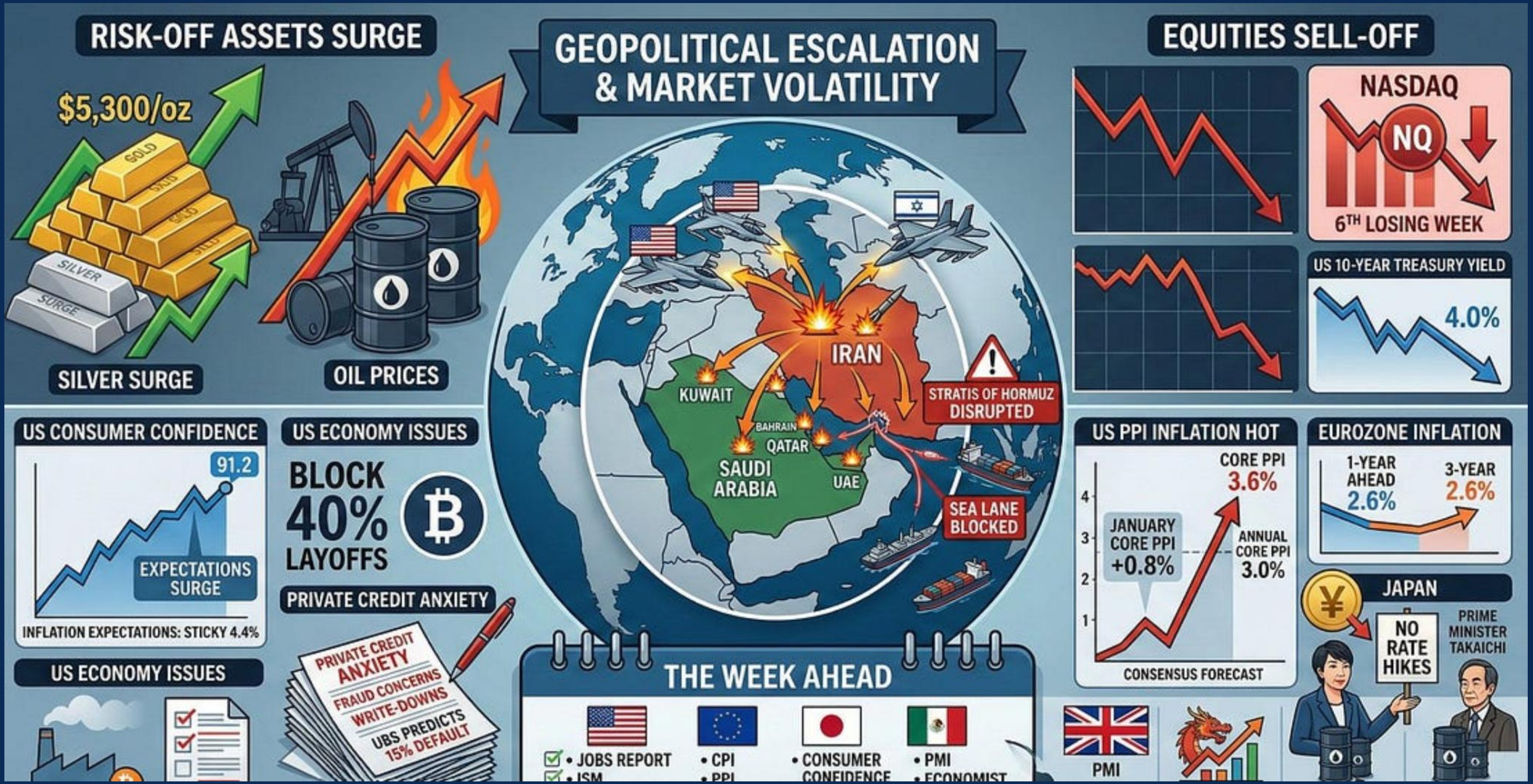


Sources: IMF, World Gold Council and ECB staff calculations.

Notes: In panel a), the latest observation is for the fourth quarter of 2024. Gold reserves and the currency composition of official foreign exchange reserves have different country coverage. In panel b), the latest observation is for the end of 2024. One troy ounce equals approximately 31.10 grams.

Back to the future...

"Operation Epic Fury" -- Risks



Source: Mohamed El-Erian substack (March 1st, 2026)

“Operation Epic Fury” -- Stagflationary (?)

Market Prices¤	Change in % ¶ Feb 28 to Mar 3d at 13h CET¤
WTI oil¤	+ 15.1¤
Brent oil¤	+13.6¤
US Natural Gas¤	+9.1¤
Europe TTF Gas¤	+ 86.1¤
Dollar index DXY¤	+2.3¤
EURUSD exchange rate¤	-1.3¤
US 10Y yield¤	+3.5¤
Germany 10Y yield¤	+4.9¤
France 10Y yield¤	+ 6.2¤
US S&P 500¤	-1.7¤
Germany DAX 40¤	-6.4¤
France CAC 40¤	-4.7¤
Gold¤	-3¤

Source: Vitor Constancio’s MacroViews (March 3rd, 2026)

To conclude: a quote to remember...

Heraclitus, the Greek philosopher, famously asserted: “**everything changes, and nothing stays...**”

Thank you