Dissatisfaction without displacement

Dollar Dominance in the Global Financial System

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The global Euro starts at home

Advancing the Global Euro by Completing Europe's Monetary Union

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One paradox, three speeds

Beliefs adjust rapidly; intentions and portfolios move much more slowly.

1

Beliefs

Institutional confidence
Geopolitical risk
Fiscal sustainability

2

Intentions

Diversification plans
Strategic hedging
Operational preparation

3

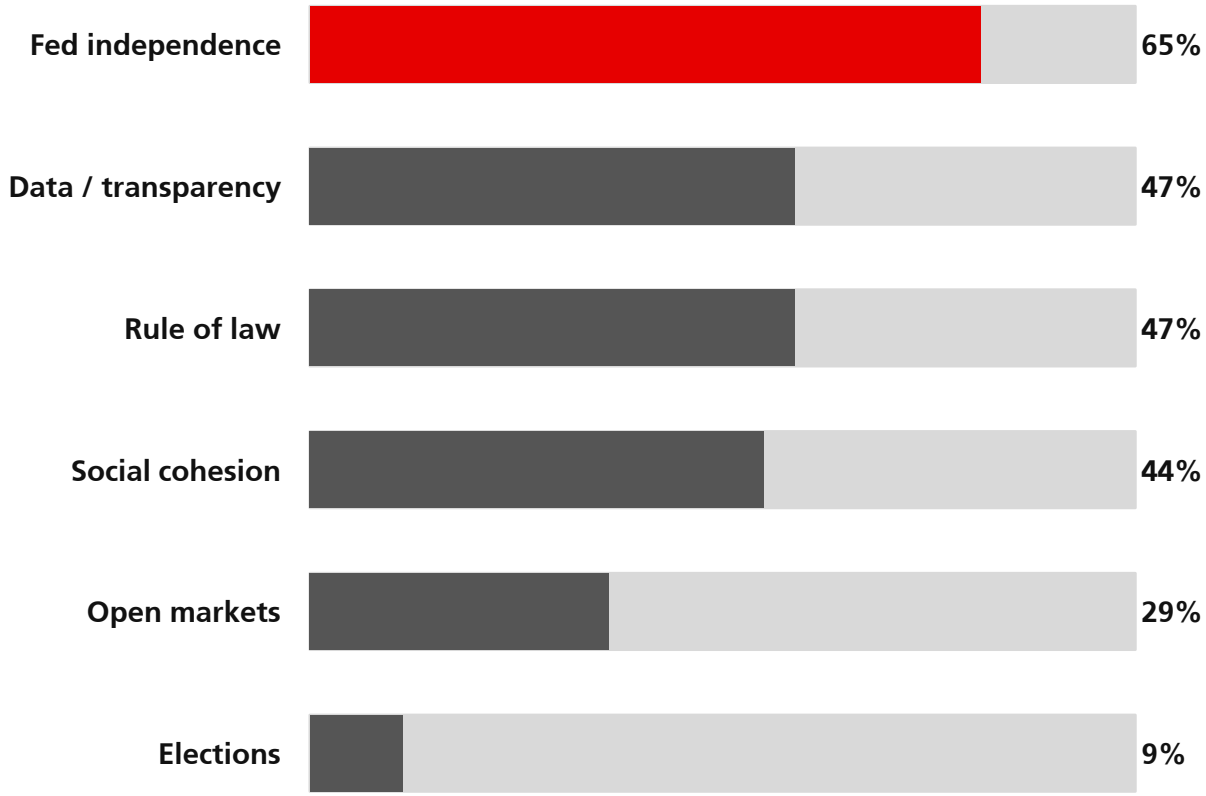
Outcomes

Realised COFER allocations
Slow-moving benchmarks
Constrained execution

The analytical mistake is to treat changing beliefs as immediate evidence of currency displacement.

Dissatisfaction is real

Reserve managers increasingly question the institutional foundations of dollar dominance.



Source: UBS Reserve Manager Survey 2025; Castelli, M., "Dollar Dominance in the Global Financial System: Dissatisfaction without Displacement", Figure 3.

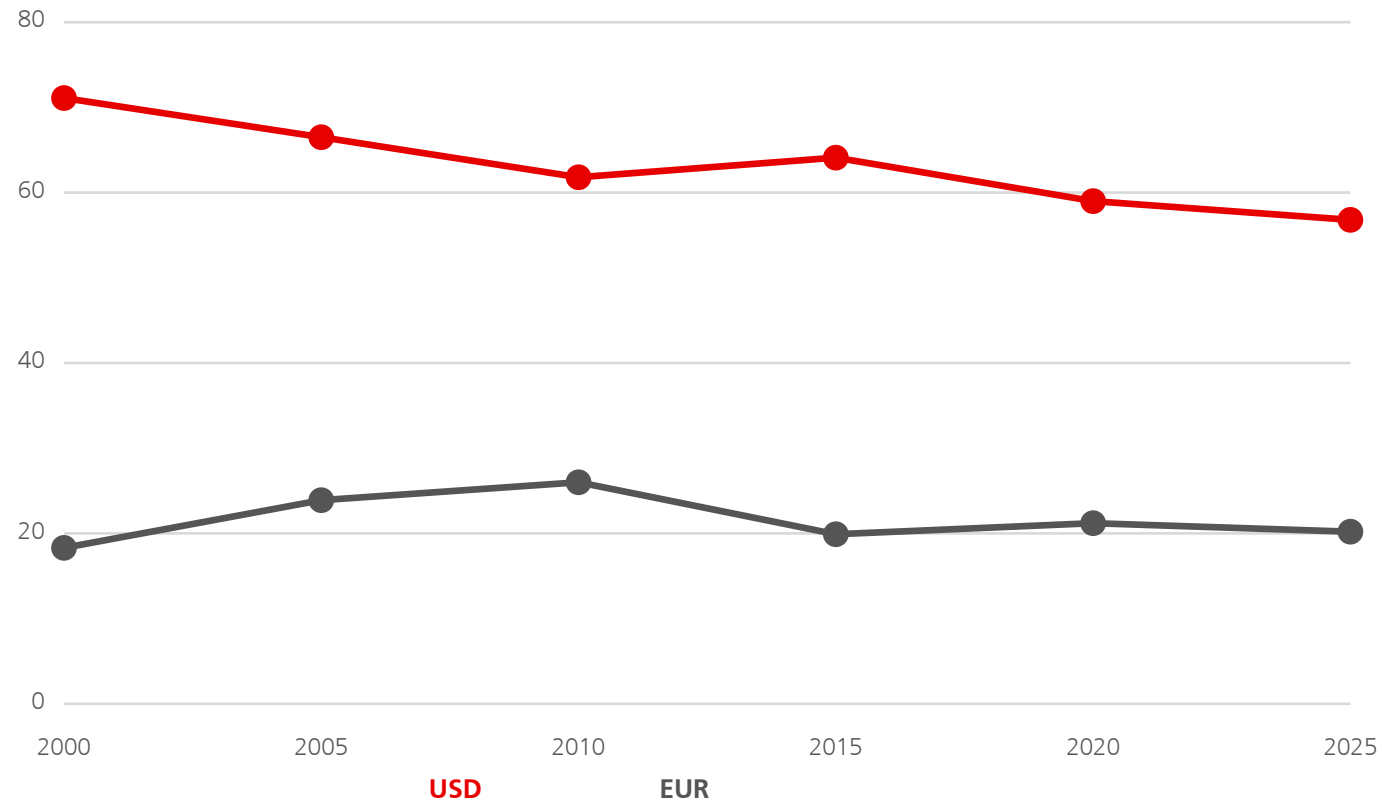
What changed?

- Geopolitics became a structural risk
- Sanctions and asset freezes altered perceptions of neutrality
- US governance concerns entered mainstream reserve discussions

Confidence in the system is increasingly contingent rather than unconditional

But displacement is not happening

The dollar's reserve share has declined gradually, not collapsed.



2025 reserve shares

56.8%

US dollar

20.2%

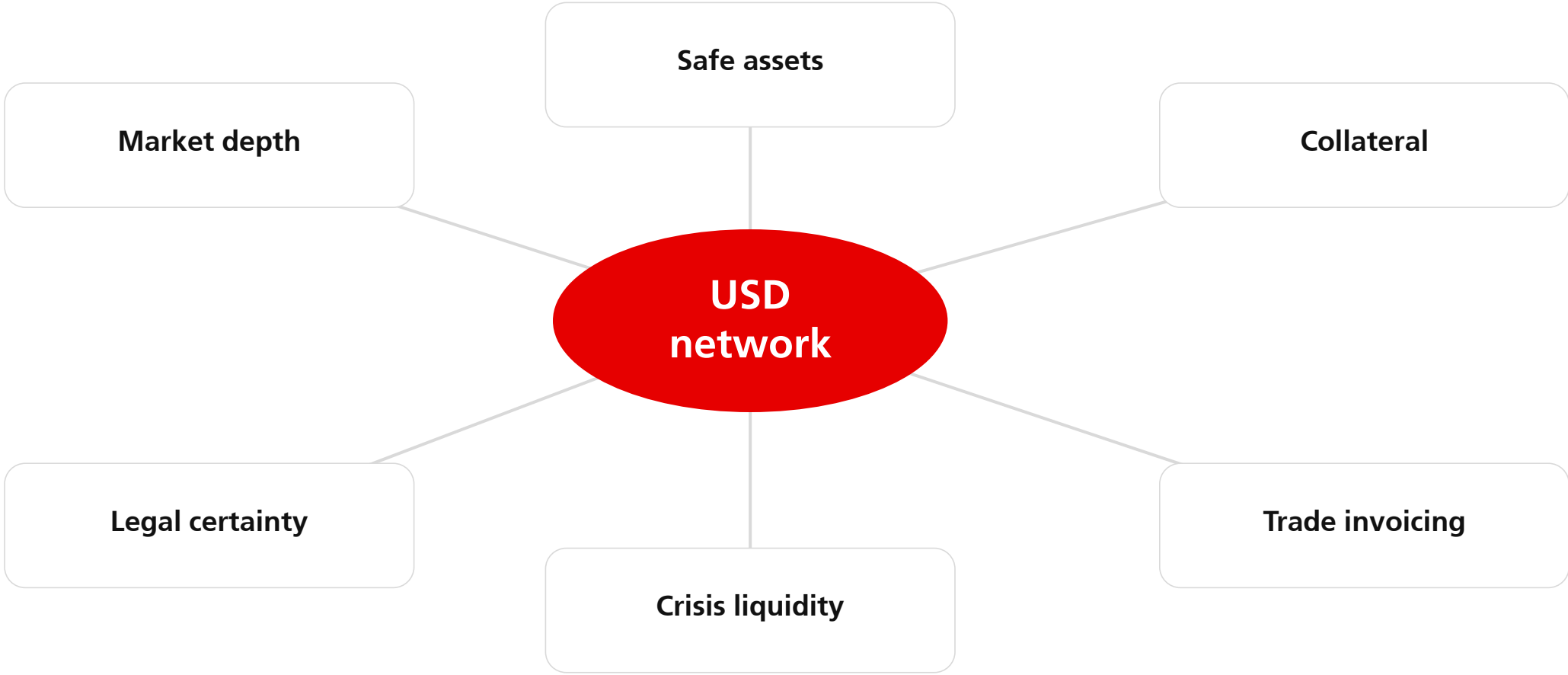
Euro

Source: IMF Currency Composition of Official Foreign Exchange Reserves (COFER), data available as of October 2025; Castelli, M., op. cit., Table 1.

A 14-point decline over 25 years is diversification at the margin, not regime change.

Why the dollar remains hard to replace

Dominance rests on a system of mutually reinforcing functions.



Replacing a currency requires replacing an ecosystem, not just offering a better asset

The alternatives are partial substitutes

Each diversifier solves one problem while introducing another.

Alternative	What it offers	Binding constraint
Euro	Credibility, scale, openness	Fragmented safe assets and crisis architecture
Renminbi	Trade weight, strategic relevance	Capital controls, convertibility and governance
Gold	No issuer risk; geopolitical hedge	No yield; limited transactional and collateral role
Smaller currencies	Stable institutions; diversification	Insufficient scalability
Digital money	Faster rails and programmability	Does not create safe assets or deep funding markets

The choice is constrained: diversification means accepting different risks, not eliminating risk

The euro opportunity is institutional

The euro can gain, but only if Europe converts economic scale into financial capacity.

1 **Safe-asset supply**

More permanent, liquid common issuance

2 **Capital-market depth**

Complete the Savings and Investments Union

3 **Crisis execution**

Fewer veto points; faster and predictable mechanisms

4 **Liquidity diplomacy**

Scaled swap and repo lines linked to trade and finance

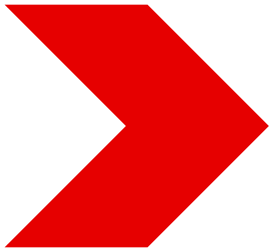
The euro's external credibility will be a function of its internal completeness.

Digital rails do not equal currency displacement

The contest is shifting toward settlement architecture, but denomination still matters.

NEW RAILS

Tokenisation
Atomic settlement
24/7 execution
Cross-border platforms



OLD REQUIREMENTS

Unit of account • Deep funding markets
Safe collateral • Par convertibility
Legal finality • Crisis backstops

USD-linked stablecoins may extend the dollar unit even when they bypass correspondent banking.

Alternative rails are developing faster than alternative currencies.

Four pathways, one common constraint

Structural change accelerates only when viable substitutes meet a shock.

BASELINE	MULTIPOLAR	FRAGMENTATION	SHOCK-DRIVEN
Persistent USD dominance	**EUR and RMB gain**	**Financial blocs**	**Disorderly transition**
Gradual diversification	Requires deep reform	Efficiency traded for resilience	No ready replacement

The most plausible future is diversification within a dollar-centred system, not a clean succession

Three conclusions for the global euro debate

1

Do not confuse unease with exit

Beliefs are moving much faster than portfolios.

2

Infrastructure is destiny

Safe assets, collateral and crisis liquidity determine scale.

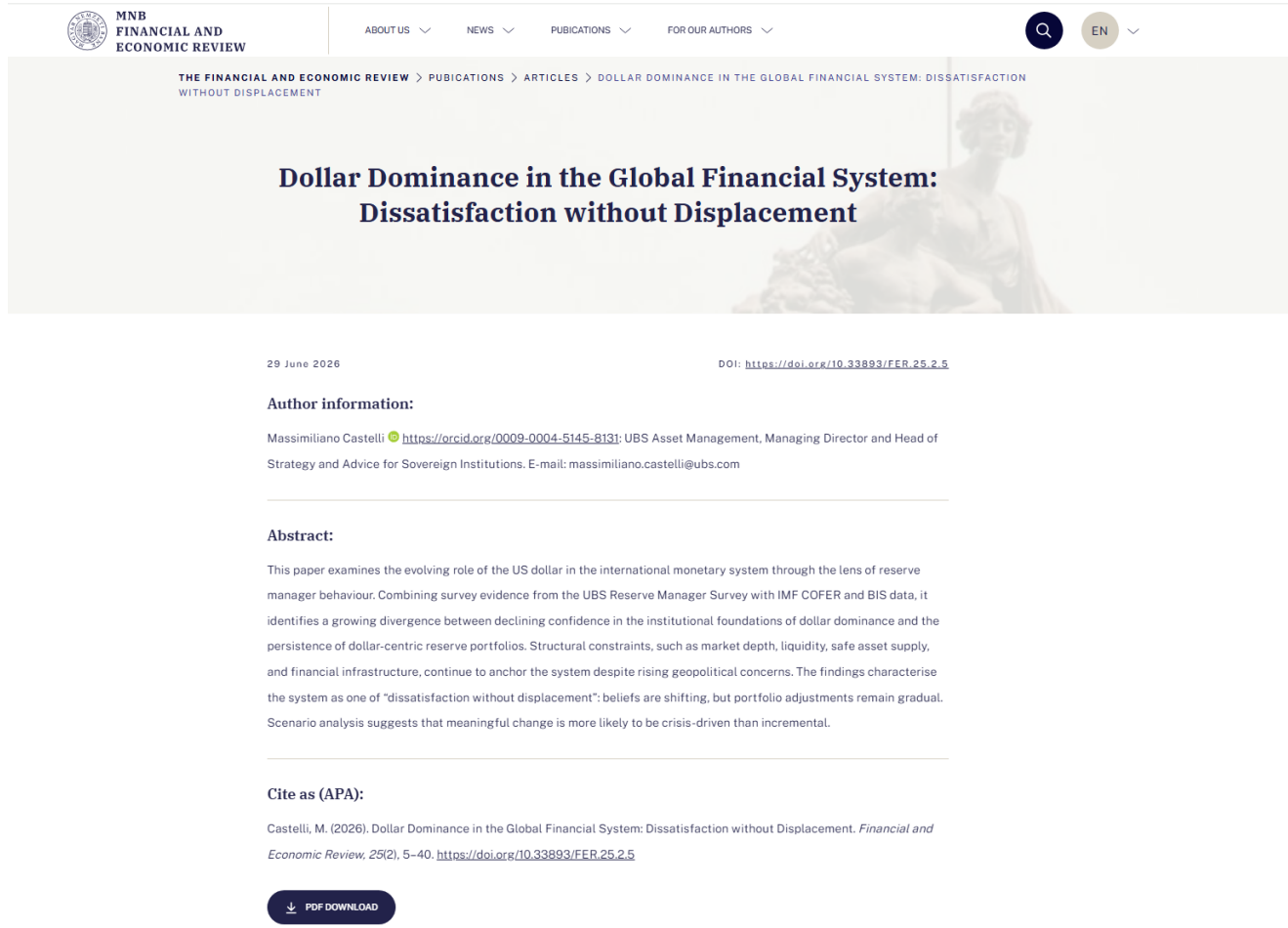
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Europe can change the choice set

A global euro starts with institutional completion at home.

Dollar dominance is stable in form, but increasingly fragile in confidence

Thanks!



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Dollar Dominance in the Global Financial System: Dissatisfaction without Displacement

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Abstract:

This paper examines the evolving role of the US dollar in the international monetary system through the lens of reserve manager behaviour. Combining survey evidence from the UBS Reserve Manager Survey with IMF COFER and BIS data, it identifies a growing divergence between declining confidence in the institutional foundations of dollar dominance and the persistence of dollar-centric reserve portfolios. Structural constraints, such as market depth, liquidity, safe asset supply, and financial infrastructure, continue to anchor the system despite rising geopolitical concerns. The findings characterise the system as one of "dissatisfaction without displacement": beliefs are shifting, but portfolio adjustments remain gradual. Scenario analysis suggests that meaningful change is more likely to be crisis-driven than incremental.

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