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Original Research Article

Evaluating Global Finance Depolarization: Euro's Chance to Overtake US Dollar as Leading Reserve Currency despite Competition from Chinese Yuan and Emerging Alternatives

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Abstract

The world financial system is growing more volatile, and it is questionable whether the conventional reserve currencies will remain as strong as ever. This paper will look at whether the euro can meaningfully challenge the U.S. dollar's dominance as increasing economic volatility and the appearance of new competitors like the Chinese Yuan raise this question. The article adopts a qualitative and descriptive-quantitative research design that is grounded in empirical evidence, presented by IMF and BIS, and is supported by theoretical frameworks such as hegemonic stability theory (Kindleberger, 1981), network effects (Cohen, 2015), and institutional trust to examine the dynamism of global reserve currencies. The results indicate that the dollar has fallen from above 70 per cent of the world reserves to approximately 57.7% (or approximately 53.6% when adjusted for exchange rate fluctuations) as at Q1 2025. The euro has held a steady share of approximately 20% of the world reserves (20.06% in Q1 2025), as well as having robust legal frameworks and sound monetary policy, yet it has a wide reach due to the disjointed fiscal structure and political breakdown of the Eurozone member states. The Yuan holds approximately 2-2.1% of the global reserves. The international role of the Yuan is still constrained in spite of the growing financial power of China in the world due to the capital controls by China, its controlled exchange rates, and weak financial transparency. This paper concludes that there is no single currency that will take the lead in the future. Rather, the world is becoming multipolar in terms of reserve systems where the dollar, euro, Yuan, and selected digital currencies co-exist.

Keywords: Global Financial Stability, Reserve Currencies, U.S Dollar, Euro, Chinese Yuan (reminbi), Currency Multipolarity, Central Bank Digital Currencies (CBDCs), International Monetary Fund (IMF), Bank for International Settlement (BIS), Hegemonic Stability Theory, Network Effects, Institutional Trust.

INTRODUCTION

General Introduction, Background, and Research Question of the Study

The presence of a single reserve currency in the world has had an expansive effect on the global financial system, which has influenced the settlement of trade, monetary independence, and geopolitical bargaining power.

The U.S. dollar has been the key anchor of the global monetary system since the Bretton Woods Agreement of 1944 (Eichengreen, 2011). Which institutionalized its position as the primary reserve currency in the world. It is supported by the fact that the U.S. capital markets are unmatched in their depth, and by a high level of institutional credibility, and deep global liquidity, which together enhance the primary position of the dollar in the global monetary structure (Eichengreen, 2019). Nevertheless, recent trends seem to imply that the dominance of the dollar is slowly fading away. The euro has become a viable alternative (ECB, 2024), and the Chinese Yuan is also asserting itself in international trade and finance (Prasad, 2021), with the growing geopolitical presence of China.

The empirical evidence that supports this strategic change is that the dollar is losing its share of world reserves to around 58 percent in mid-2024, compared to around 70 percent in 2000, and the euro is holding at approximately 20 percent (IMF, 2024; BIS, 2023, p. 45). The current moment is a critical one because during the last several years, central banks are scrambling to diversify their reserve holdings because of increased trade tensions, geopolitical fragmentation, and the increased use of dollar-related sanctions.

In spite of this diversification, both the euro and the Yuan are still constrained by structural factors. The euro is affected by incomplete fiscal integration and fragmented financial markets among the members of the Eurozone (IMF, 2019; ECB, 2024). In the meantime, the internationalization of the Yuan, which China tries to achieve via the Belt and Road Initiative, bilateral swap lines, and the Cross-Border Interbank Payment System, is challenged by strict capital regulations, limited transparency in monetary policy, and exchange rate management (Prasad, 2021; IMF, 2022).

The key question that this paper will aim to answer, therefore, is: Is it true that the euro is capable of becoming the new dominant reserve currency of the world, or are we in an era of a multipolar currency order? Although the euro can be regarded as the most plausible competitor, this paper concludes that the total replacement of the dollar is not likely to happen. Rather, the development of new trends, especially the adoption of digital currencies such as the eCNY and the digital euro, is reinforcing a shift to a more fragmented and multipolar reserve system in which several major currencies co-exist. This development has significant consequences for the independence of monetary policy, trade, and the allocation of economic power in the world.

Research Objectives

1. To discuss the economic, political and institutional conditions that can influence the possibility of the euro to compete with the U.S. dollar as a global reserve currency. This involves the study of fiscal integration, depth of the market and institutional credibility within the Eurozone.
2. To discuss the structural and strategic issues to the internationalization of the Chinese Yuan, with the emphasis on capital account restrictions, lack of transparency and currency management.
3. To explore the current trend toward diversification of reserve currencies, especially the emergence of central bank digital currencies (CBDCs), and their future implications regarding the global monetary relations within the next 20 years.

Research Questions

1. What are the most important political, economic and institutional conditions that affect the viability of the euro as a global reserve currency and whether it can compete with the U.S. dollar?
2. What are the impacts of the monetary policies of China, particularly its capital control, currency control and access to financial markets, on whether the Yuan can be a global reserve currency or not?
3. What is the contribution of innovations like central bank digital currencies (CBDCs) and new cross-border payment systems to the move towards a more multipolar global reserve currency system?

Background and Industry Trends

Background and Industry Trends: In-Depth Analysis of Historical Context, Current Developments, and Emerging Patterns Shaping the Industry Landscape

After World War II, the Bretton Woods system established the United States dollar as the universal reserve currency of the world. It was powerful due to a stable political environment, developed and liquid capital markets, and the central position of the dollar both in trade and finance (Eichengreen, 2011). The currency remains the major foreign-exchange reserves, commodity prices and international transactions, despite the collapse of the fixed-exchange-rate regime in the early 1970s.

To determine the evolution of the reserve-currency dynamics, we need to examine the last two decades. At the beginning of the 2000s, the euro started acting as a significant competitor. The 2008 financial crisis rocked the belief in U.S.-based systems and took most governments and investors toward diversification. An important step was made in 2016 when the Yuan of China entered the Special Drawing Rights (SDR) basket of the International Monetary Fund, which indicated its increasing significance (IMF, 2016; Prasad, 2021).

In spite of this milestone, the influence of the Yuan has remained small. Its international use is still limited by capital controls, lack of exchange rate flexibility, and transparency issues. Despite the fact that the inclusion of the Yuan into the IMF Special Drawing Rights (SDR) basket was a step in the right direction, it is a restricted reserve asset because of

structural and policy limitations (Prasad, 2021; IMF, 2019).

The diversification of world reserves is faster in recent developments. Geopolitical tension, the use of more U.S. sanctions, and the rapid creation of central bank digital currencies (CBDCs) including the digital euro and e-CNY are challenging the global financial structure (BIS, 2021; Prasad, 2021).

The dominance of the dollar gives the United States significant geopolitical influence, as it allows the United States to impose sanctions, cause monetary spillovers, and manipulate payment systems worldwide. However, such hegemony is also subject to criticism because it introduces systemic imbalances and subjects the global economy to unilateral risks in Washington (Obstfeld & Rogoff, 2009).

The Rise of the Euro:

The second most commonly used reserve currency is the euro, which was launched in 1999. Although it was initially a political instrument of European integration, it also sought to challenge dollar hegemony (McNamara, 2008). The recent statistics given by the European Central Bank (ECB, 2023, p. 28) indicate that, as of 2023, the euro has been estimated to comprise about 20 percent of the world reserves, although some more recent reports reveal that at the time of 2024 the figure has decreased slightly to about 16 percent (IMF, 2024; ECB, 2024).

Table 1: The Share of the Global Foreign Exchange Reserves by Currency (Selected Years)

Year	U.S. Dollar (%)	Euro (%)	Chinese Yuan / Renminbi (%)	Others (%)
2000	70 (approx.)	20 (estimate)	(not separately identified)	Remainder (10–12%)
2010	62 (approx.)	24–27 (estimate)	—	Remainder (9–12%)
2020	59 (Q4)	20 (estimate)	2.8 (estimate)	Remainder (17–18%)
2024 (end)	57.8 (Q4)	19.8 (Q4)	2.18 (Q4)	20.20 (Q4)

Source: IMF (2024); ECB (2023).

Table 1. These numbers in this table indicate a slow but significant change in the composition of world reserves. As long as the dollar reigns supreme, the euro is a strong contender, and the Yuan is gradually making inroads, though on a low platform. This diversification is an indication of the initial phases of a shift from a unipolar to a multipolar reserve-currency system.

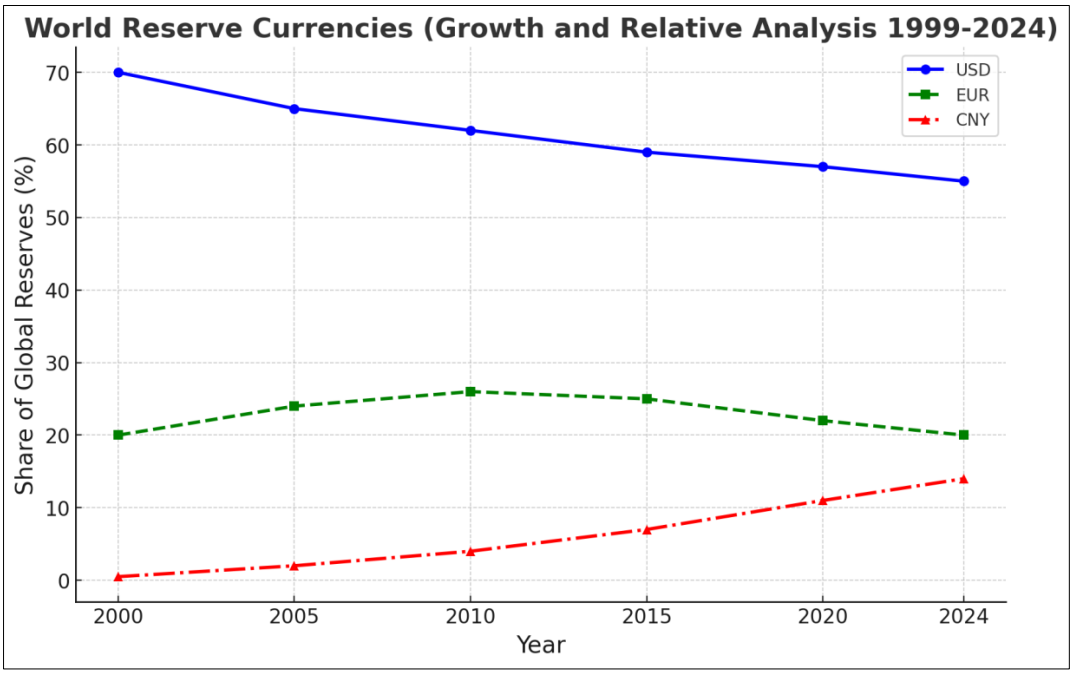


Figure 1: Growth and Relative Analysis of World reserve currencies (1999-2024)
Source: (IMF, 2024).

Figure 1, indicates that the change in the composition of foreign-exchange reserves in the world over 1999 to 2024 reflects a slow transition to currency multipolarity**.**

This shows the comparative positions of the U.S. dollar, the euro, and the Chinese Yuan. The euro has held a stable 20 percent share of total reserves and it is a sign that the Chinese Yuan is gaining momentum as a reserve asset as China gains prominence in the world trade and finance, even though it is a minor but growing player (IMF, 2024; SWIFT, 2024). Meanwhile, the euro remains around 20 percent, while the Yuan has gradually increased its share as a new reserve currency.

This figure highlights an important tendency, which is the gradual shift to a multipolar system of reserve currencies, with multiple emerging reserve currencies, not just the Dollar is the most popular reserve currency because of unmatched liquidity, superior financial markets, and institutional confidence and trust. The euro has stabilized in terms of share but has structural problems, primarily the absence of a centralized fiscal power and political disaggregation of the member states. The appreciation of the Yuan reflects the increased role of China in trade, and the reserve status of the currency is limited because of capital controls, convertibility problems, and transparency problems.

An analysis of these three currencies identifies five factors of reserve-currency viability:

1. Market Liquidity
2. Political Stability
3. Capital Convertibility
4. Institutional Integration
5. Trade Utility

According to this model, the U.S. dollar tops in every measure particularly in world trade payment and financial availability. The euro is good on convertibility and market depth and its power is watered down by regulatory disparities and fractured governance. Although the Yuan can be increasingly used in trade (it has increased to over 8 percent by 2024, but less than 1 percent in 2010), the currency remains largely structurally constrained, inhibiting wider adoption as a reserve (SWIFT, 2024; IMF, 2024; Prasad, 2021).

The lack of fiscal integration, the different levels of debt and the lack of uniform banking rules among Eurozone members undermine the strategic position of the euro as an alternative to the dollar. These factors contribute to the loss of investor confidence and the stagnation of the growth of the euro in reserve portfolios. Meanwhile, China facilitates the use of the Yuan by such programs as the Belt and Road Initiative, cross-border settlement systems, yet institutional opaqueness and macroeconomic restrictions continue to inhibit its international adoption.

Finally, the future of reserve-currency diversification is determined by economic size, but also perceived neutrality, support of the rule of law, and geopolitical actions of issuers. Figure 1 is not merely a case of changing percentages but the beginning of an internal rebalancing in the global monetary system.

The Chinese Yuan an Increasing but Limited Competitor: The Chinese Yuan has expanded its reach in international trade over the last ten years. Its proportion of international trade settlement has increased to over 8 percent as of 2024, which is a reflection of the increasing economic influence of China in Asia, Africa, and some parts of Europe (SWIFT, 2024; Prasad, 2021).

Nevertheless, this growing trade position has failed to yield a commensurate amount of world reserves. With less than 4% of the global reserves in foreign-exchange reserves, the Yuan continues to be underrepresented even after its inclusion in the Special Drawing Rights of the IMF (SDR) in 2016, a major step in its internationalization. Some of the reasons behind this low reserve status are chronic capital controls, a managed exchange-rate regime and constant fears of financial transparency and political interference.

Although efforts have been made to increase the credibility of Yuan as a transactional and reserve currency through programs like the Belt and Road Initiative (BRI) and Cross-Border Interbank Payment System (CIPS), structural impediments are present. Most central banks are unable to fully convert the Yuan and the financial governance of China lacks the institutional independence to hold the currency as a stable store of value.

In summary, the Yuan is becoming influential in international trade networks yet limited in reserve portfolios because of systemic problems. Its course is an example of how the tension between economic size and institutional preparedness takes place on the way to becoming a global reserve-currency.

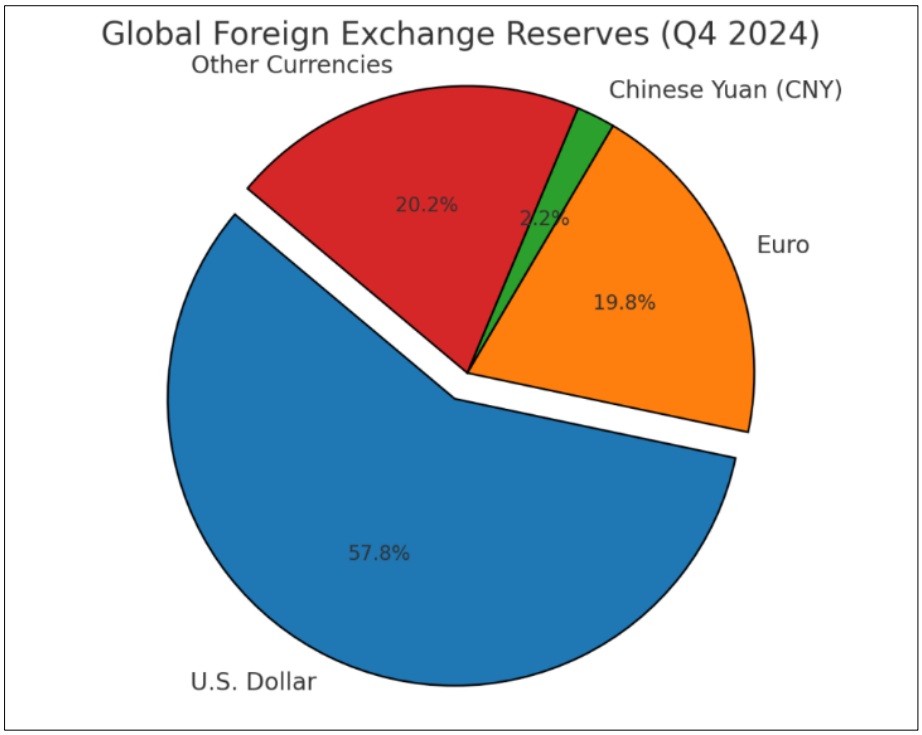


Figure 2: Composition in the Global Foreign Exchange Reserves by Currency (2024)
Source: BIS (2024)

Figure 2. In this chart, it is clear that the U.S. dollar is still the leading currency as it dominates 57.80 percent of the world foreign exchange reserves in 2024. The euro is the second most important reserve currency with 19.83 percent, while the Chinese Yuan (CNY), though still small at 2.18 percent, and is slowly making strides as an emerging reserve currency. Other currencies like the Japanese yen, the British pound, and other less important currencies all exhibit a more diversified reserve makeup, which points to a minor turn toward a more multipolar currency order.

In 2016, the IMF included the Yuan in its SDR basket, the first reserve asset to be listed globally. The Belt and Road Initiative and an extensive system of bilateral currency-exchange agreements with central banks in Asia, Africa and Latin America have helped to reach this milestone. Nevertheless, the Yuan is challenging to operate due to capital constraints and a less liquid market despite these endeavors, yet there is still potential as evidenced by increasing trust in the global market. China has recently made progress in internationalizing the use of the Yuan, especially in its incorporation into the IMF SDR in 2016. To make the Yuan a possible global currency, the country has engaged in many initiatives, such as the BRI, the CIPS, and swap agreements with more than thirty central banks (Subacchi, 2017).

However, the Yuan remains a very minor reserve currency, with under 4 percent of the world reserves (IMF, 2024). China's systemic intention to keep its currency weak to maintain stable exports comes at the cost of long-term trust, along with the continued ability to control capital and make conversion difficult and unpopular (Prasad, 2021).

Emerging Trends Depolarization and Digitalization:

There are two significant changes in the global financial system. To begin with, the gradual erosion of the dollar as the leading global currency, known as depolarization, can be observed through diversified reserves of central banks, as well as the use of different payment systems among regional trade groups (Aizenman, Binici, & Hutchison, 2021; BIS, 2023).

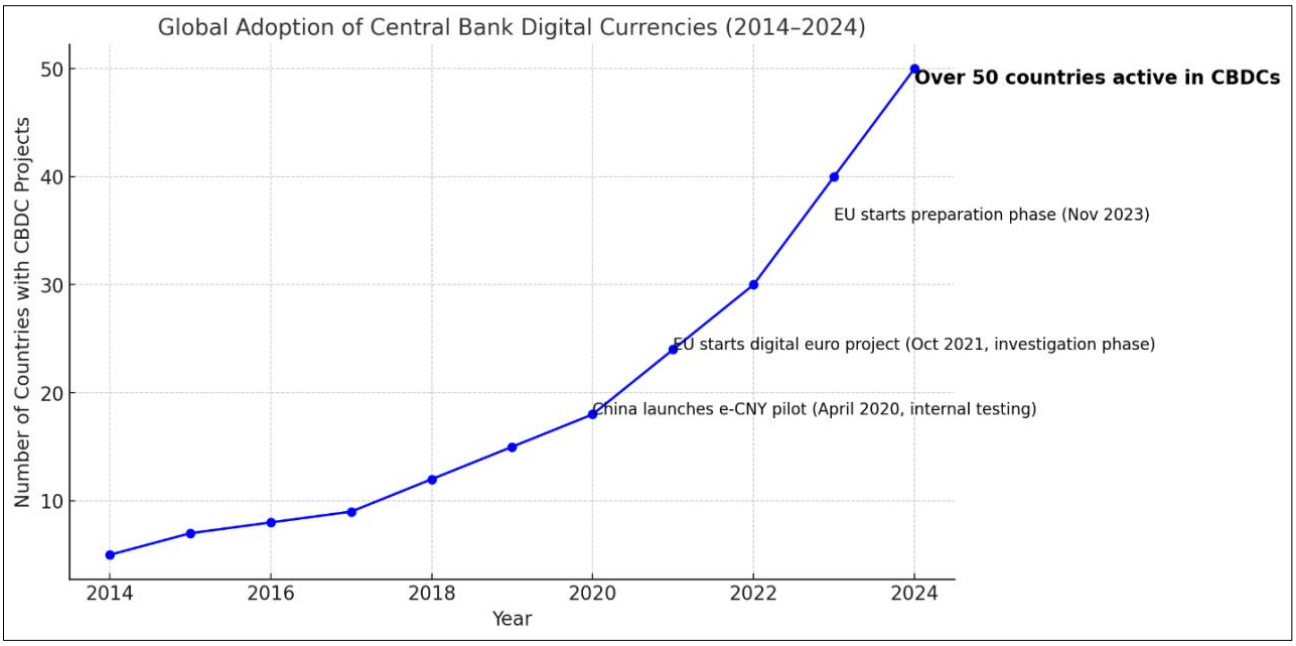


Figure 3: The Future of Central Bank Digital Currencies (CBDCs): Rapid Global Adoption, 2014–2024.
Source: BIS (2024).

Figure 3. This chart illustrates the number of countries that are creating or exploring Central Bank Digital Currencies (CBDCs) has increased sharply since 2014, going from one project in 2014 to more than 50 in 2024, which is indicative of a fast growth of interest in the digital form of sovereign currency. Some of the key events include the launch of the e-CNY pilot in China and the digital euro initiative in the European Union, which have further accelerated the pace of structural change in the global finance system, a factor that may assist in accelerating the shift to a more diversified and technologically integrated reserve currency system.

Due to the emergence of digital currencies, especially central bank digital currencies (CBDCs) such as the e-CNY in China and the digital euro in the EU, the flow of currencies and the execution of world transactions are changing (BIS, 2023). With these tendencies, the international reserves will not be controlled by a single currency but will evolve into a multipolar system with multiple important currencies, including digital ones.

Currency Reserves Scenario Analysis 2025-2040. This Part Examines the Future Possibilities of the U.S. Dollar, Euro, Renminbi and Digital Currencies in the Face of Economic, Technological and Geopolitical Developments

In a world where the dollar continues to be the leading currency, the dynamics of global economics, technology and military strategy are transforming power relations at an unparalleled rate and may bring about fundamental changes. Three forecast scenarios are described, including those relying on the current empirical trends, theoretical knowledge, and institutional reports (Aizenman *et al*., 2022; BIS, 2023; Eichengreen, 2019), which can help comprehend potential futures.

Scenario 1: Back to the Status Quo - Dollar Dominance and Sluggish Diversification

In such a case, the U.S. dollar would continue to reign as the global reserve, with 55–60 percent of foreign-exchange reserves by 2040. There would be a small change toward the euro and Yuan though these are not the primary ones. The euro would stabilize at around 20 percent and the Yuan would increase to at most 7 percent to 9 percent (Aizenman *et al*., 2022; BIS, 2023).

Drivers:

Constant need of dollar-denominated safe assets, the intensity of the U.S. capital markets, the U.S. military supremacy, as well as the abundance of dollar-denominated debt.

CBDC Role:

Digital projects such as FedNow and the digital dollar bring changes to payment systems and modernize them but do not change the dynamics of money in the world fundamentally.

Risks:

They are still exposed to fluctuation of interest rates and policy choices in the United States and competing currencies do not yet have any concrete alternatives or creative resolutions.

Scenario 2: Balanced Multipolar Reserve System

By 2040 all three currencies, US dollar, euro and Yuan, will represent approximately equal shares of global reserves, with USD representing approximately 45%, EUR 25%, and CNY 15% of reserves (see

Aizenman *et al*., 2022; BIS, 2023). The rest will be in gold, SDRs, and central bank digital currencies (CBDCs). Major forces are geopolitical change like the BRICS coalition, the launch of the digital euro, liberalization of capital flows in China and the development of the CIPS network. Currency-swap settlements and regional trading bloc, such as the e-CNY and the digital euro, will be settled using CBDCs. The institutional reforms include the enlarged IMF reserve basket and the new BIS-coordinated principles of interoperability of CBDC.

Scenario 3: The Digital Disruption and Emerging Technological-Based Currencies

In this case, digital currencies and private or regional monetary networks are becoming more of a threat to traditional reserve currencies. The U.S. dollar constitutes about 54-58% of the world foreign-exchange reserves, which is lower than its high of more than 70% in the early 2000s. The prospect of this share declining to as low as 44-55 and Central Bank Digital Currencies (CBDCs) (and the future digital euro, the e-CNY, and other commodity-backed products) replacing approximately 2530 percent of the international monetary system is a hypothetical scenario of future development of the international monetary system (Aizenman *et al*., 2022; BIS, 2023). U.S Dollar Dominance U.S dollar holds approximately 57.7 percent of foreign exchange reserves in the world in Q1 2025. It is not being literally replaced. CBDCs will assume some of the key roles of SWIFT and dollar clearance and support programmable cross-border transactions. Risks include a decrease in the U.S. financial strength, an increase in volatility, currency fragmentation, and administrative issues.

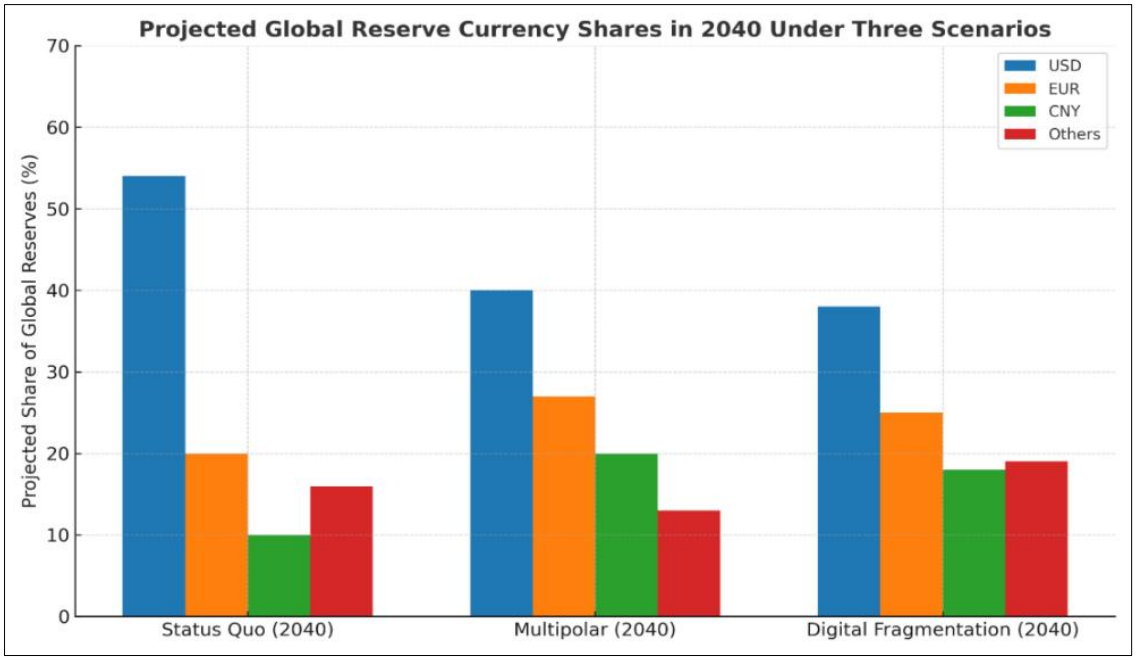


Figure 4
Source: Aizenman *et al*., (2022); BIS (2023).

Figure 4. This figure depicts the estimated proportion of reserve currencies in the world by 2040 in three hypothetical scenarios: Status Quo, Multipolar and Digital Fragmentation. In the Status Quo scenario, the U.S. dollar continues to dominate world reserves; in the Multipolar and Digital Fragmentation scenarios, however, the euro, Chinese Yuan and other currencies gain more share of world reserves. These projections show that the global financial system can be more diversified and technologically interconnected.

The following two decades of the global monetary system will be dependent on geopolitical balance, the efficiency of institutionalization, and the rate at which new technology is embraced. Three possibilities of global reserve-currency quotas in 2040 are detailed. In the Status Quo scenario, the dollar remains in the lead, taking approximately 54 percent of the share, and the euro and Yuan see relatively small gains. In the multipolar scenario, the shares of the three major currencies expand with deeper integration of the Eurozone and a more active Yuan. As central bank digital currencies and regional payment systems emerge as the mainstream in the digital-fragmentation scenario, the likelihood of one currency to prevail decreases, and other regional or commodity-backed assets gain even more importance. This study indicates that dollar leadership may persist, but its relative dominance might be reduced drastically in certain situations.

Table 2: The Estimates of the Reserve Currency Shares in the Future (2040) under various scenarios

Currency	Scenario 1: The Status Quo	Scenario 2: Multipolarity	Scenario 3: Digital Disruption
USD	58%	< 45%	< 40%
EUR	20%	25%	20%
CNY	7%	15%	18%
Other (JPY, GBP)	10%	8%	7%
CBDCs / Other	5%	7%	15–20% (This includes gold-backed and stable coins)

Table 2, presents three potential global reserve currency scenarios by 2040, including the continued U.S. dollar dominance, a multipolar system where the roles of the euro and Yuan increase, and disruption by CBDCs and stablecoins. These scenarios are developed by the authors based on trend analysis and projections in Aizenman *et al*., (2022) and BIS (2023), using current data from IMF (2024) as a baseline.

The world financial system has experienced a significant change due to the creation of central bank digital currencies or CBDCs. These changes are relevant to every region and affect allocation of foreign-reserves and domestic financial stability. The analysis below discusses the main opportunities and threats presented by CBDCs in international finance, including both the negative and positive issues.

1. CBDCs as Payments Modernization Catalysts:

Central Bank Digital Currencies (CBDCs) present a chance to modernize the work of financial systems bypassing traditional infrastructures such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and correspondent banking networks (Bank for International Settlement BIS, 2023; Auer & Boehme, 2020). According to a recent CBDC adoption survey conducted by the BIS (2023), CBDCs can solve inefficiencies in international and domestic transactions as they have the ability to provide real-time gross settlement (RTGS), as well as tailored features.

2. Increasing Financial Inclusion and Improving Policy Transparency:

CBDCs can greatly increase access to government-sponsored digital money especially in areas where financial exclusion is prevalent. CBDCs provide an effective and secure means of doing business in developing countries where mobile-phone penetration is higher than traditional banking services. According to Prasad (2021), they would allow direct fiscal interventions, including direct stimulus payments, and enhance anti-money-laundering measures since the transactions of the CBDC are traceable, but it would also lead to privacy concerns, especially in authoritarian regimes.

3. Ensuring Reserve Currency Attractiveness:

The concept of a properly developed Central Bank Digital Currency (CBDC) can help improve the credibility and efficiency of current reserve currencies. With better and more digital infrastructure to process international loans, trade invoices, and foreign-reserve management, a currency might be more efficient and attractive. According to Kiff *et al*., (2020), digital currencies can become so-called trust amplifiers under the condition of strong institutions and clear regulatory frameworks. The Central Bank of China and the European Central Bank are also working towards the development of CBDC to ensure that their currencies become more competitive in the world.

4. Strategic De-Dollarization and the Monetary Sovereignty Pursuit:

Central Bank Digital Currencies (CBDCs) are being deployed to decrease the reliance on the U.S. dollar and make networks such as the Chinese SWIFT more powerful. Connecting China's Cross-border Interbank Payment System (CIPS) with its e-CNY could establish a platform to settle cross-border trade transactions without the involvement of the U.S. channels (Subacchi, 2020). These actions align with the country's plan, which aims at de-dollarization to protect itself against sanctions and enhance geopolitical and financial autonomy (Prasad, 2021).

5. Absence of Cross-Border Interoperability:

Cross-border interoperability is still not in place, which makes it harder to utilize CBDCs in places where people engage in trade. There have been some cross-country linkages in other pilots, such as Project mBridge by BIS. However, no coherent model of integration of digital currencies has been established in different regulatory, legal, and technological settings (BIS, 2022; BIS, 2023). In the absence of international coordination, CBDCs can also be counterproductive to their own usefulness as a global reserve currency.

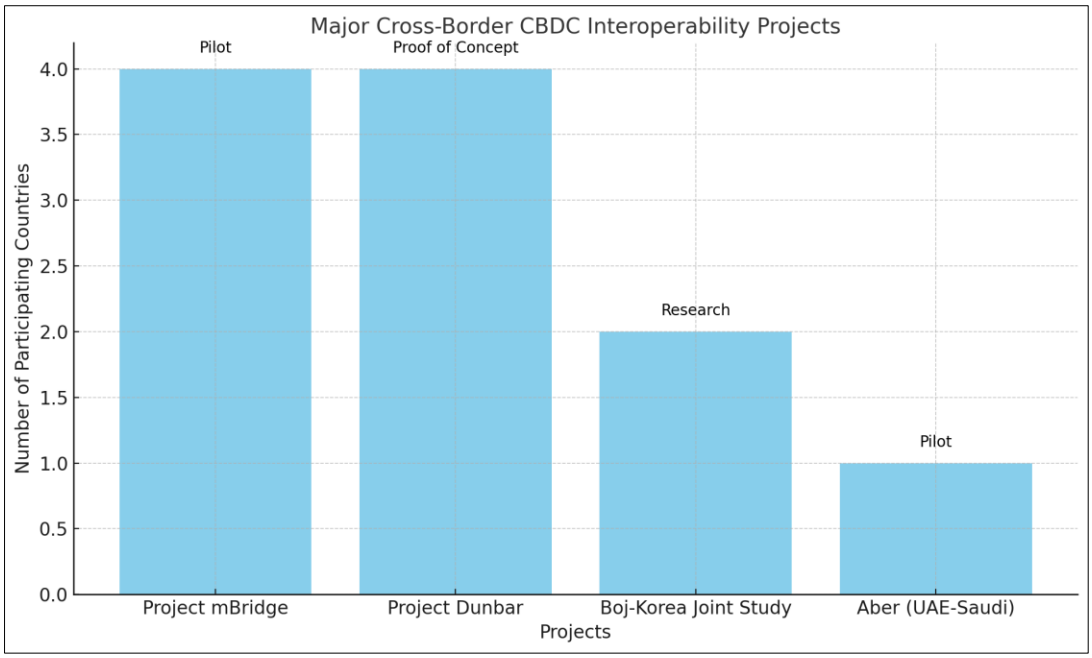


Figure 5: Identifies important Cross-border CBDC Interoperability Projects
Source: (BIS, 2023; BIS & MAS, 2022).

Figure 5. In this figure, four major cross-border CBDC interoperability projects are represented, which include Project mBridge, Project Dunbar, the BoJ-Korea Joint Study, and Project Aber. The initiatives include research and proof-of-concept projects and pilot projects, which reflect the growing multilateral interest in facilitating cross-jurisdictional CBDC transactions. These projects demand two to four countries, and the trend of global common digital-currency infrastructures is on the rise.

6. Uncertainty in the Law and Cybersecurity:

CBDCs result in the introduction of more complex regulation, data privacy, legal jurisdiction, and platform security. As the provider of digital infrastructures, central banks are at greater risk of cyberattack and technical failures, and the other reason why many central banks are not convinced that CBDCs are a good idea is that settlement finality is legally uncertain, cross-border enforcement, and user rights to their data may not be as secure in jurisdictions with weaker rule of law (BIS, 2023; Barontini, 2019; Hoffmann, 2022).

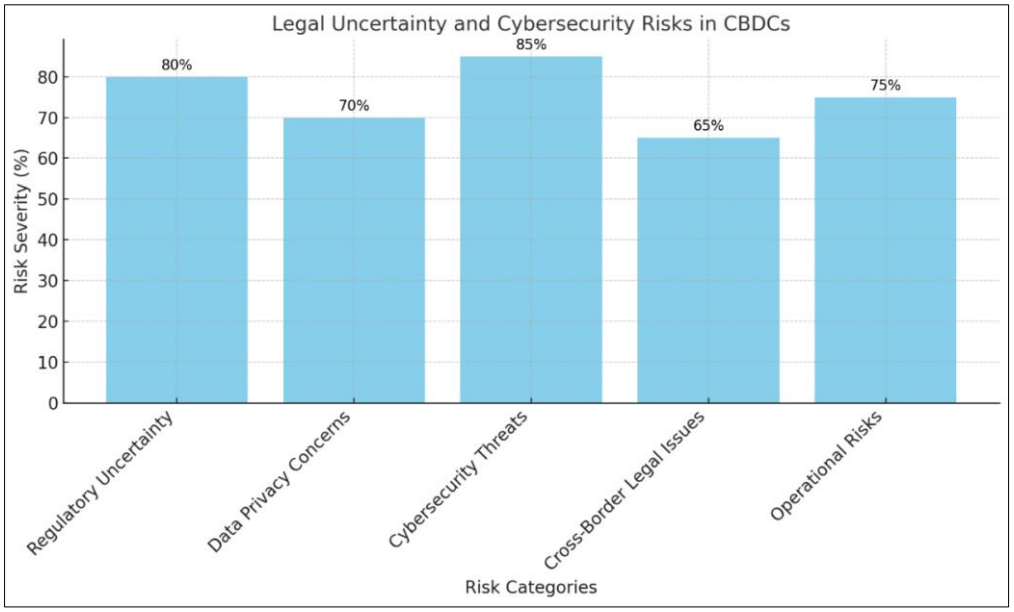


Figure 6: Key CBDC Risk Categories of Concern to the Central Bank
Source: BIS (2023); IMF (2024).

Figure 6. This graph shows how legal and cybersecurity threats posed by CBDCs are perceived to be serious. Cybersecurity threats (85 percent), regulatory uncertainty (80 percent), operational risks (75 percent), and data-privacy concerns (70 percent) are the leading concerns that experts and institutions have raised, yet they are important issues and are indicative of the legal ambiguity of international digital-currency regimes.

7. The e-CNY Technical Maturity in China Strategic Concerns:

The most developed CBDC is the electronic Chinese New Yuan (e-CNY, China), which is implemented as a test pilot in local retail and international Trade. Its high technology, concerns on governmental surveillance, financial constraints, and restricted flexibility remain barriers to its use worldwide (Prasad, 2021).

8. Digital Euro: The Problems of Institutional Fragmentation

Institutional fragmentation regarding the digital euro exists throughout the Eurozone, even though it is technically and legally desirable. This lack of coherent fiscal policy and the political differences among the member states hamper its international position. The issues of data protection, bank disintermediation, and legislation are obstacles to implementation (ECB, 2023; Siklos, 2024). Such limitations prevent the full implementation of CBDC innovation to strengthen the position of the euro as a reserve currency.

7. Global Reserve Composition:

CBDCs are not going to replace traditional reserve currencies soon, but their further evolution will change the sharing of reserves in the world. They present major benefits in the changing world of international currencies, including programmability, expanded availability, and increased digital resilience (Iancu *et al*., 2022; BIS, 2023). It is one of the changes that indicate the growing need of international cooperation, standard technical requirements, and management.

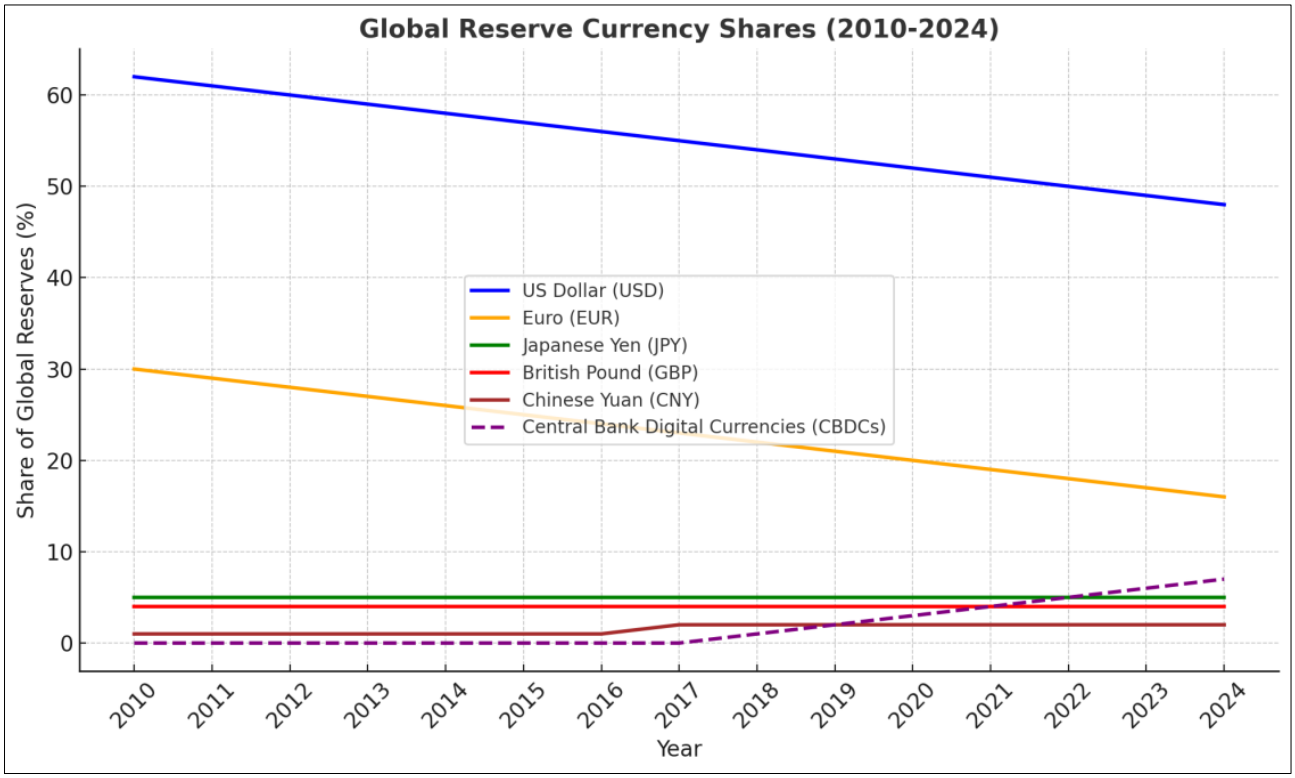


Figure 7: The composition of Global Reserve Currency (2010-2024) Trends
Source: (BIS, 2023; Prasad, 2021; ECB, 2023).

Figure 7. Demonstrates a comparative evaluation of e-CNY in China and the European digital euro. The graph identifies the technical maturity, model of governance, and the challenge of global adoption of CBDCs.

Table 3: Compared to the Digital Euro (European Union), the e-CNY (China) has the following characteristics

Feature	e-CNY (China)	Digital Euro (European Union)
Pilot Stage	Advanced (crask beyoun-pkcils angaging)	Mid to advanced (in public contransition phase)
Monetary Authority	People's Bank of China (PBoC)	European Central Bank (ECB)
Institutional Trust	Limited (state control limits transparency)	Moderate to High (ECB independence)
Privacy & Data Concerns	High (capital controls remain)	Lower
Convertibility	Limited (capital controls remain)	Fully convertible
Interoperability Readiness	Strategic de-dollarization	Financial innovation, euro competitiveness
CiPS Integration	CiPS integration in progress	Still under technical design review

Sources: BIS (2023); ECB (2023); PBoC (2022).

Table 3, compares the key features of e-CNY in China and the Digital Euro in the EU and finds that there are differences in the pilot development, institutional trust, privacy, convertibility, and strategic intent. The e-CNY is more developed in pilot implementation and aims at de-dollarization but has shortcomings in transparency and convertibility. The Digital Euro plan is to establish institutional trust and improve the competitiveness of the monetary system, but is still in the design and testing phase.

This analogy highlights the fact that Central Bank Digital Currencies (CBDCs) do not have a single path to follow, but the way they are developed and the policy objectives they are intended to achieve are paramount. Chinese legal regulations and internal accord procedures restrict the electronic Yuan more in China, though the e-CNY reflects a top-down, geopolitically oriented strategy by China. These approaches indicate that the process of designing a digital currency is not simply about technology, but it also represents political structures and economic aspirations.

CBDC interoperability and regulation play a role in determining whether they will remain locally used or be trusted elements of world reserve portfolios as they become used more globally.

Broader Scope

Other Major Reserve Currencies and Developing Regions Inclusion

Although the US dollar and euro are the ones that are being spoken about in relation to the world financial system, other important reserve currencies should also be examined. These are the Japanese yen, the British pound sterling, the Swiss franc, and the Chinese Yuan (renminbi), which is gaining momentum. The position of every currency in the global trade system, central-bank reserves, and financial markets indicates the political and economic power of the country of issue (IMF, 2024; BIS, 2023; Kiff *et al.*, 2020).

The Chinese Yuan is now a constituent of the IMF Special Drawing Rights (SDR) and has gained relevance. Becoming global will shift the use of money in parts of the world like Latin America, Africa, and Asia, in particular, where China is extending its Belt and Road Initiative and enhancing its financial connections with developing countries (BIS, 2023).

Less developed financial markets and less monetary autonomy generally expose the developing regions to more risk of changes in reserve currency and exogenous policy changes. Most countries in Southeast Asia, Latin America and Sub-Saharan Africa tightly control their currencies or peg them to the US dollar or the euro (IMF, 2023; Aizenman *et al*., 2022). As a result, they are susceptible to external shocks. The problem of overdependence on one currency can be minimized over time as a result of the adoption of digital currencies, regional payment systems, and other business strategies (BIS, 2023; Kiff *et al*., 2020).

The interaction of new reserve currencies and the emergence of developing economies with the traditional financial giants is the key to the future of the global monetary system. Such a wider outlook allows policymakers to see the new trends, assess the potential risks and come up with policy frameworks that are inclusive and reflect the growing global economy that is increasingly interconnected (Aizenman *et al*., 2022; Prasad, 2021; IMF, 2024).

In order to determine the changes in the composition of global foreign-currency reserves over time, it is necessary to better understand the global effect of key reserve currencies. The International Monetary Fund (IMF) figures illustrate the proportion of each currency that central banks hold in the world. The progressive shift toward alternative currencies, especially the Chinese Yuan, is evidence of minor yet significant diversification of reserve assets. This trend is ongoing, although the euro and US dollar are still dominant (IMF, 2024; Aizenman *et al*., 2022; Prasad, 2021).

Table 4: Global Foreign Exchange Reserves by Currency (Last 10 Years) Composition

Year	USD (%)	EUR (%)	JPY (%)	GBP (%)	CNY (%)	Others (%)
2015	65.0	20.6	3.6	4.4	1.0	5.4
2020	59.0	21.2	5.9	4.7	2.3	6.9
2024	58.4	20.3	5.4	4.6	3.0	8.3

Source: IMF (2023).

Table 4. The table above shows the US dollar's share in global reserves has gone down from 65.0% in 2015 to 58.4% in 2024. This shows that global reserves are slowly being rebalanced. The euro's share has remained very stable, although the Japanese yen and the British pound have also seen minor fluctuations. The share of Chinese Yuan in official reserves has tripled over the past 10 years, which is a sign that the currency is becoming more broadly recognized. China's economic progress and strategic financial diplomacy are largely responsible for this. When discussing the operation of the global monetary system, it is even more important to take into consideration the currencies of countries that are not part of the Western world.

The Chinese Yuan, which is sometimes called the renminbi, is becoming more popular in many countries throughout the world. Efforts to improve the monetary system are ongoing, which is beneficial.

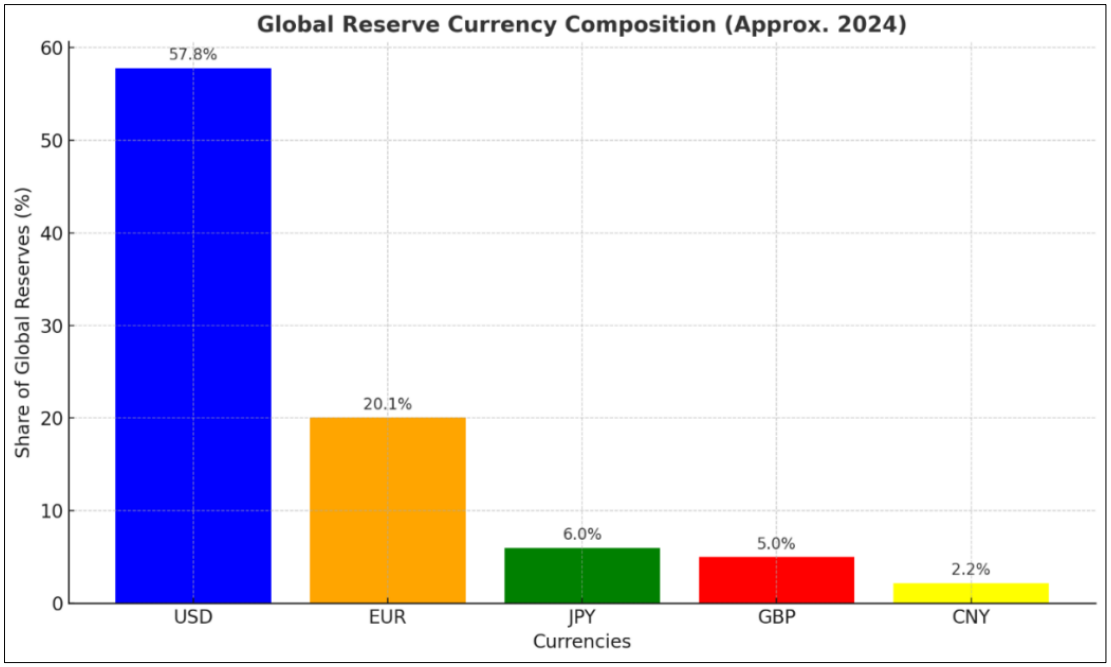


Figure 8: Distribution of the Global Reserve Currencies (Estimated 2024)
Source: IMF (2023), BIS (2023).

Figure 8. In 2023, more than 6% of all trading in the world was done in the Chinese Yuan. This is up from less than 0.5% in 2009. The most significant ones are the inclusion of the Yuan into the SDR basket of the IMF in 2016 and policy-based projects like the Belt and Road Initiative and bilateral swap agreements.

The figure above illustrates the Yuan's proportion of global trade settlement has been gradually rising, going from less than 1% in 2010 to around 2.2% in 2024. This was a turning point as the Yuan was included in the SDR in 2016 which implied that the Yuan had become an international reserve asset. Later policy-driven initiatives such as the Belt and Road Initiative and a web of swap agreements with central banks in Asia, Africa, and Latin America served to create confidence in the Yuan and indicate it could become more of a global banker.

The Emerging Markets Regional Reserve Strategy:

The reserve-currency debate has long been concerned with the rivalry between the largest powerhouses: the United States, the European Union, and China. Nevertheless, coalitions in the emerging markets are becoming increasingly central to strategies to diversify reserve resources. The financial independence of separate jurisdictions and the reduction of the reliance on the U.S. dollar or the euro are being tested by the experiment of the regions with currency pooling, alternative payment networks, and even localized digital infrastructure.

Sources: Aizenman *et al.*, (2021); BIS (2023).

BRICS+ Strategic Monetary Co-Ordination:

The BRICS grouping of Brazil, Russia, India, China, and South Africa has increased its efforts to ensure that the world is no longer reliant on the U.S. dollar. Conversations about a BRICS reserve currency or even a common settlement system which could be supported by member currencies and supported by interoperable CBDC networks are now under discussion (Kiff *et al*., 2020).

China and Russia have been moving toward settling trade in their local currencies of Yuan and ruble, and India and Brazil are considering local currencies for trade settlements. Although these changes remain informal, they show a concerted attempt to create a monetary space that is not tied to Western-controlled frameworks such as SWIFT and the SDR basket of the IMF (Subacchi, 2020).

ASEAN and the Development of Regional Payment Systems:

The central banks of Southeast Asia are connecting cross-border payment systems. Measures such as compatibility with QR code payments and bilateral local-currency settlement systems have been put into effect. Indonesia, Thailand, and Malaysia have also adopted their national currencies to be used in settlements instead of dollar conversion.

Such technological innovations are the components of a bigger plan to increase the efficiency of traders regionally, decrease exposure to currency risk, and improve economic stability (BIS, 2023). Although such structures do not provide a reserve-currency base, these assist their members in limiting dependence on the dollar and strategizing for potential currency reserve accumulation.

Pan-African Payment System and the African Continental Free Trade Area (AfCFTA):

The Pan-African Payment and Settlement System (PAPSS) is aligned with the objective of AfCFTA in reducing the use of dollars in trade among African countries. Research on multilateral clearing systems is being conducted in Nigeria, Ghana, Kenya, and elsewhere, and some of them consider digital currencies issued by central banks including the eNaira, depending on local conditions. The Pan-African Payment and Settlement System (PAPSS) is still in its infancy but allows African nations to make real-time cross-border payments in their local currencies (Kiff *et al*., 2020). This addresses the long-term problems of currency imbalance, exorbitant transfer costs, and dollar shortages. Such programs demonstrate the localization of monetary policy and are informed by the weaknesses and hopes of the Global South economies and are meant to transform their economic prospects.

A Bottom-Up Realignment:

These regional arrangements represent a top-down institutional reorganization of international monetary structure, which is led by central banks, governments, and international financial institutions in an effort to improve efficiency and diversification beyond the U.S dollar. Developing countries are becoming no longer passive receivers of U.S. and EU policy spillovers. Regional bloc are becoming able to manage reserves independently without relying on major central banks by creating payment systems, swap lines, and potential CBDC corridors, which are better adapted to their region. Even though they are yet to become fully established as reserve currencies, they signal a strategic move in the direction of local monetary sovereignty, a key feature of the increasing tendency of reserve depolarization (Aizenman *et al*., 2022; BIS, 2023).

Table 5: Regional Reserve Policies and Currency Programs

Region / Bloc	Key Initiatives	Primary Goals	Impact on Reserve Currencies	Countries Involved	Examples
BRICS+	Discussions around a BRICS reserve currency; bilateral trade in Yuan/ruble	Reduce reliance on the U.S. dollar and enhance strategic autonomy	Increased use of Yuan; bypassing SWIFT in bilateral trade	Pushing Yuan use; bypassing SWIFT	China, Russia, Brazil, India
ASEAN	QR code-based payment interoperability; local currency settlements	Boost intra-regional trade and cut FX transaction costs	Weakens dollar's dominance in Southeast Asian trade	Similar weakening of dollar reliance	Indonesia, Malaysia, Thailand
AfCFTA / PAPSS	Pan-African Payment and Settlement System (PAPSS)	Support local currency use and reduce remittance friction	Encourages Yuan use in dollar-scarce African economies	Same impact on dollar-limited economies	Argentina, Brazil
Gulf Cooperation Council (GCC)	Early launch of Central Bank Digital Currencies (CBDCs);	Examine the functionality of Central Bank Digital Currencies	Increasing the interest of doing oil transactions	Increasing demand for oil transactions denominated in	UAE, Saudi Arabia

Region / Bloc	Key Initiatives	Primary Goals	Impact on Reserve Currencies	Countries Involved	Examples
	cross-border digital corridors	and alternative payment solution.	without using the U.S. dollar	currencies other than the dollar	

Sources: Recent studies support this opinion (Aizenman *et al*., 2022; BIS, 2023; Kiff *et al*., 2020; Subacchi, 2020).

Table 5, shows the new regional alliances are also actively discussing real alternatives to the dollar-based institutions. These programs have not outgrown the traditional reserves, but they are altering the use of money, especially in foreign trade and liquidity management. The United States Dollar remains strong in this trend, but this highlights a more general point: the transition in non-dominant reserve currencies is influenced not only by the competition between great powers but also by innovation and the restructuring of positions in the Global South.

Gold is an Attractive Investment Because It Has the Intrinsic Value and A Long-Standing History of Serving as a Reliable Store of Value

Another important aspect of global reserve diversification that receives little attention is the growing popularity of alternative reserve assets, especially gold and some commodities. This trend goes hand in hand with the abandonment of dollar-based fiat currencies. Central banks especially in developing countries have been buying more gold because of currency risk and systemic instability. This change is conditioned by the broadening of political differences and a gradual loss of confidence in traditional fiat-based banking systems. Recent statistics released by the Bank for International Settlement (BIS) and the International Monetary Fund (IMF) show that the level of gold purchases by the public sector in 2022 and 2023 was higher than it has been over the last few decades. The major contributors to this trend were China, Turkey, and India. This is aimed at minimizing the exposure to the U.S. dollar, financial inconveniences, inflation risks, and the use of money as a geopolitical tool (BIS, 2023; IMF, 2023; Eichengreen, 2011).

Gold has continued to be an Attractive Investment Because it Has Intrinsic Value and a Long History of Being a Reliable Store of Value

Its special qualities allow it to retain its value and even appreciate in value despite the shift in monetary systems. The investment strategies of sovereign wealth funds and state-owned enterprises are shifting toward commodity-based investments and physical resources like energy and rare earths. These trends suggest the future international reserve system will include a multipolar currency system and a mix of fiat, gold, and resource-based assets. According to Eichengreen (2011), the legitimacy of a reserve asset is founded on confidence and liquidity. An increasing number of psychological and institutional purposes are being fulfilled by gold and other alternative assets.

The Table Below Describes the Changing Role of Various Reserve Assets

Traditional fiat currencies, gold, commodities, and sovereign wealth funds. It identifies the key features, recent trends (2022-2024), and the advantages of the approach. The following table contrasts the modern diversification of major central banks and sovereigns beyond the conventional fiat assets based on the economic uncertainty, geopolitical change, and the long-term financial priorities.

Table 6: Comparison between Fiat and Non-Fiat reserve assets

Reserve Asset Type	Key Initiative(s)	Primary Characteristics	Recent Trends (2022–2024)	Strategic Advantages
Conventional Currencies	USD, EUR, CNY, JPY	Easily tradable, marketable, highly liquid, quickly convertible	Decreasing USD proportion; modest increase in CNY and EUR	Increased market liquidity, stronger liquidity conditions, continued stability in traditional reserve currencies
Gold	Gold holdings maintained by central banks	Very Steady, private-sector, historically trusted	Unprecedented gold acquisitions by central banks (e.g., China, India)	The Record-breaking gold acquisitions by central banks (e.g., China, India)
Commodities	Oil reserves, rare earths	Tangible, volatile, and influenced by geopolitical events	Growing role in SWF portfolios (e.g., Qatar, UAE)	Store of value, strategic autonomy
Sovereign Wealth Funds	State-backed investment vehicles	Diverse strategies involving assets like stocks, commodities, etc.	Diversifying beyond Western markets and dollar exposure	Long-term stabilization, fiscal resilience, and asset diversification

Table 6, along with the related analysis, provides a comparative analysis of the changing constellation of global reserve assets. Although fiat currencies such as the U.S. dollar and euro are still dominant due to their liquidity, being interest-bearing as well as policy-integrated (IMF, 2024), there is an apparent strategic shift in favor of non-fiat assets. The use of gold and other commodities as geopolitically neutral assets to hedge against inflation, and, in certain instances, sanctions, has a long history and is becoming popular again (Aizenman *et al.*, 2022; World Gold Council, 2024). Meanwhile, sovereign wealth funds are creating diversified portfolios of equities, infrastructure, and strategic commodities to become more fiscally resilient in the long term (Kiff *et al*., 2020).

This shift is symptomatic of the central banks and regulators moving towards a more multi-asset approach, to enhance economic security, lessen dependency on one type of asset and adjust to a multipolar financial system (IMF, 2024).

LITERATURE REVIEW

Critical Analysis of the Literature, Theoretical Approaches and Empirical Research on the Subject

The debate over world reserve currencies has evolved in the past decades because of the change in economic policy, technology and geopolitical relations. It is common knowledge among scholars that the U.S. dollar continues to be the foundation of the global financial system, but its primary status is becoming questionable. Financial multipolarity, creation of new financial centres, and central banks diversification are slowly weakening the historical dominance of the dollar (Eichengreen, 2019, p. 112). In line with the hegemonic stability theory, the global circulation of a currency is maintained through strong financial markets, institutional trust, and network externalities (Kindleberger, 1981; Cohen, 2015; Eichengreen, 2019; Oatley & Yackee, 2020). These benefits have been growing more diffuse as new economic powers begin to assert themselves.

There is a significant amount of literature on the topic of the euro as the most viable alternative to the dollar. The development of the euro is perceived as a political initiative that aims to enhance European integration and as an economic instrument to reduce the monetary power of the US. According to McNamara (2015) and Feldstein (2017), the institutional fragmentation of the EU, especially the absence of a single fiscal policy and national interests, limits the role of the euro as a reserve currency. Regardless of these issues, the euro has been the second-most-used reserve currency in the world due to the credibility of the European Central Bank and the financial stability within the Eurozone.

Chinese Yuan (Renminbi) has been getting more attention as a threat to world dollar hegemony among academicians and policy makers. According to scholars, there is a paradox in China pursuing internationalization of Yuan but keeping a tight capital control and managed exchange rate (Subacchi, 2020; BIS, 2023). These policies help in the competitiveness of exports but limit foreign investor confidence and complete convertibility.

The changing institutional structure in China, in which the state continues to play a significant role in monetary and financial decision-making, creates a credibility problem that obstructs the emergence of the Yuan as a real global reserve asset. However, according to empirical studies by the IMF (2024) and Aizenman *et al*., (2023), the proportion of Yuan in world reserves, though small, has been increasing steadily, which points toward the active financial diplomacy of China and the overall trend of the transition to a multipolar reserve system.

Recent studies talk about the growing role of electronic currencies and other assets in the evolution of global reserve systems and how Central Bank Digital Currencies (CBDCs) and blockchain-based settlements are becoming the focus of attention of scholars and policymakers as potentially disruptive to the dollar-based international system through the redistribution of monetary power, the enhanced efficiency of cross-border operations, and the challenge to the dominant position of the dollar (Kiff *et al.*, 2020; BIS, 2023). The emerging body of literature is concerned with how institutional credibility, technological innovation and geopolitical strategy interact in the determination of the shifting landscape of reserve currencies.

The literature as a whole points to the fact that the world is shifting towards an international monetary order that is no longer unipolar and dollar-based but one that is strategically diversified and experimented with institutions. The changing debate indicates that the next stage in the international monetary order will not be determined by the uncompromising replacement of the dollar, but by the coexistence of fiat, digital, and commodity-based assets in a more globalized yet decentralized international financial system.

Table 7: Summary of Key Literature Findings

Author(s)	Topic	Key Findings	Relevance to Paper
Eichengreen (2019)	Dollar dominance & challenges	Dollar dominance faces diversification pressures	Sets context on hegemonic currency trends
Kindleberger (1981), Cohen (2015)	Hegemonic stability theory	Dominant currency benefits from liquidity & trust	Theoretical foundation
McNamara (2015), Feldstein (2017)	Euro challenges	Political fragmentation limits the euro's global role	Explains Eurozone constraints
Subacchi (2020), Prasad (2021)	Yuan internationalization	Capital controls & managed devaluation hinder Yuan growth	Highlights China's currency policy issues
BIS (2023), Kiff *et al*., (2020)	Digital currencies	CBDCs may accelerate a multipolar currency system	Emerging monetary technological trends

Table 7, summarizes key academic and official views on the development of monetary power in the world. The general trend in the literature is that there is a slow shift in the structure of the unipolar system toward a more diversified and possibly multipolar system. The analytical foundations of currency dominance are the foundational theories of hegemonic stability (Kindleberger, 1981; Cohen, 2015), although empirical studies (Eichengreen, 2019; McNamara, 2015; Feldstein, 2017) highlight structural and political limitations on the dollar and the euro. Recent studies (BIS, 2023; Kiff *et al*., 2020) indicate that the development of digital currencies and CBDC is a booster of systemic change in global reserves, and the new literature (Subacchi, 2020; Kiff *et al*., 2020) highlights that China is cautious about the internationalization of Yuan.

Theoretical and Conceptual Framework

The study is based on a combination of theories to explain how reserve currencies are formed, sustained, and developed in the international monetary system. This concept combines the concepts of the Hegemonic Stability Theory, Network Theory, Institutionalism, and the more recent concept of financial depolarization to provide a more comprehensive picture of how monetary power operates, and how it may change over the years.

The Hegemonic Stability Theory proposes that the global monetary system is upheld by the economic, political, and institutional superiority of a superpower (Kindleberger, 1986; Gilpin, 2001). Traditionally, the United States has maintained this status by having strong financial markets, leading the world in trade, geopolitical strength, and institutional legitimacy. These pillars justify the long history of the U.S. dollar as the main reserve currency and medium of exchange in the world.

The Network Theory strengthens this domination by demonstrating how the use of currency reinforces itself. Once a currency achieves a wide international adoption, liquidity, credibility, and transactional convenience all have self-reinforcing network externalities that embed the dominant role of the currency (Cohen, 2015). These mechanisms are adding to the centrality of the dollar in world finance despite the growing economies.

Institutionalism further develops these structures by showing that the main role in the development and sustenance of confidence in a reserve currency is played by transparent, rule-based governance in the form of independent central banks, legal integrity, and open capital markets. As an example, the euro enjoys the advantage of an institutional framework that is based on democratic leadership, but its development is hindered by a lack of political unity and fiscal dissimilarity. In contrast, the internationalization of the Yuan is constrained by the state-controlled financial system, lack of regulatory transparency, and a controlled exchange rate regime in China.

This paper, which is based on classical and institutional theories, uses the notion of financial depolarization to describe how the power of reserve currencies circulates among various actors rather than being substituted by one hegemon. Systemic shocks, technological change, including digital currencies, and active de-dollarization policies of states that want to have more strategic freedom all accelerate depolarization (Aizenman *et al*., 2023; Tooze, 2022). These aspects transform the world reserves structure and question the hegemony of the dollar.

The framework reveals that the reserve currency status is not only determined by economic size, but also by good institutions, technological flexibility and geopolitical might, collectively are capable of propelling the world toward an increasingly multipolar monetary system and, at the same time, restrain the reverse. This combined approach provides a sound analytical model to explain the complex and asymmetrical development of global currency relations. This paper envisions a future in which the world system will be more power-sharing between multiple major currencies- strong in their respective regions, with a tight relationship with each other, and collectively, they will have a more balanced but less centralized world of finance.

Network Effects and the Transition to Historical Currency:

Network effects are critical in explaining why certain currencies become and continue to become

dominant as global reserves (Cohen, 2015). Cohen (2015) notes that once a currency gains acceptance in international trade and finance, it becomes self-enforcing as time passes by, establishing lock-in effects since global companies and financial institutions can find it difficult to switch to other currencies. Therefore, network externalities create a form of incumbency, which makes switching to competing currencies difficult and expensive. The gradual shift from the British pound to the U.S. dollar proves that these changes only happen when the benefits of the current currency become much less than those of the new entrants. These network effects are still the backbone of the long-term success of the U.S. dollar in world markets despite the changing geopolitical and economic realities.

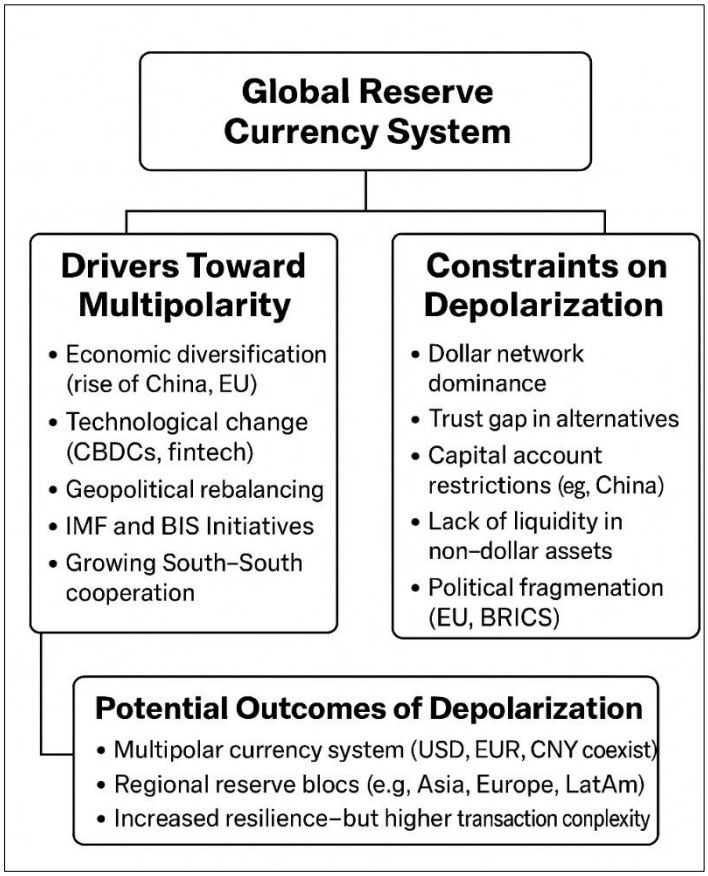


Figure 9: Drivers, Constraints and Potential Outcomes of Global Reserve Currency System Changes

Figure 9, reveals the dynamics that influence the development of the global reserve currency system. The left panel isolates drivers that are toward multipolarity (e.g., diversification of the Chinese economy, or EU economic diversification), technological innovations (e.g. CBDCs, fintech), geopolitical rebalancing, and multi-lateral efforts by institutions (e.g. IMF, BIS) (Eichengreen, 2019; BIS, 2023; Kiff *et al*., 2020). The right-hand panel lists some major limitations to depolarization the established U.S. dollar network, the paucity of trust in other assets, the capital account restriction in the emerging economies including China, and the political fragmentation within bloc like the EU and the BRICS (Cohen, 2015; BIS, 2023; Subacchi, 2020). These conflicting forces combined determine the possibilities of depolarization, meaning the shift to a multipolar monetary system where fiat, digital and commodity-based reserve resources would coexist in a stronger yet more decentralized world order (Tooze, 2022; Aizenman *et al*., 2023).

Using historical comparisons, the theoretical approach offers important critical insights and helps simplify the understanding of complex dynamics. Since the early 1900s, the U.S. dollar has been the main reserve currency around the globe, replacing the pound sterling of the United Kingdom. The study conducted by Eichengreen and Flandreau (2012) explored this transition and revealed that the hierarchy of currencies in the world is subject to transformation over time due to economic power, geopolitical influence, and network externalities. To assess the present multipolar currency system and predict the future reserve currency evolution, it is necessary to comprehend this historical event.

A Historical Comparative Lens:

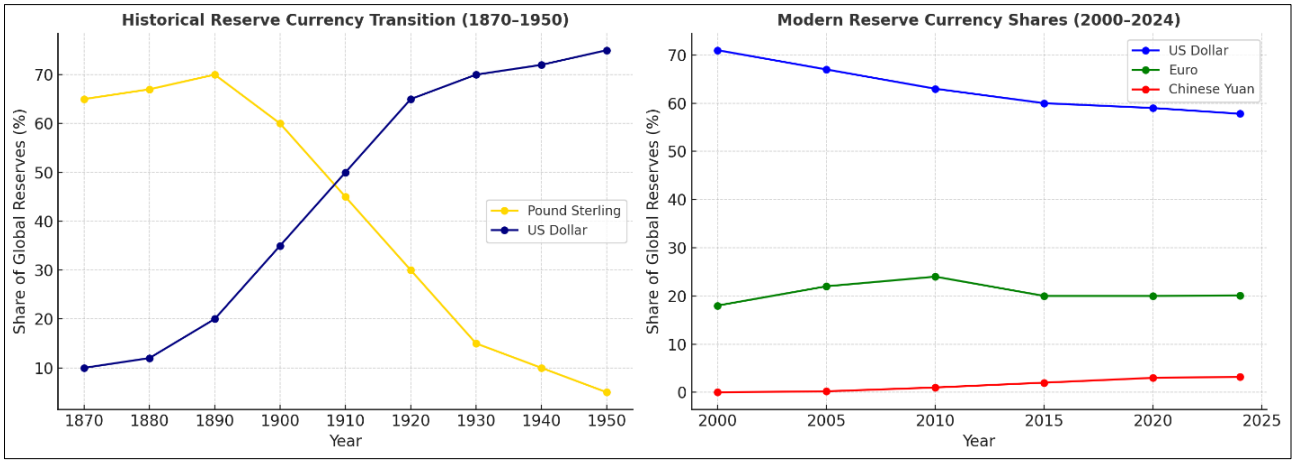
Currency transitions have been witnessed in the past, such as the abandonment of the British pound sterling in favor of the U.S. dollar as the reserve currency of the world (Eichengreen and Flandreau, 2012; Bordo *et al*., 2019). This research found that such transitions are

slow, and the period of overlap between old and new reserve currencies was long.

The leading currency of the world in the late 1800s and early 1900s was the British pound sterling, which underscored the role of Britain as the leading trading nation. The capital markets of London were robust and open and the pound was sound, supported by gold. World power relations shifted after World War I with the growth of the United States economy and the decline of British economic and political influence. The Bretton Woods Agreement formalized and further solidified the world domination of the dollar, a pattern that had been growing throughout the World Wars 1 and reached its apogee in the post-war period.

Figure 10 & 11: Development of Global Reserve Currency Dominance in Two Periods

Figure 10. Historical Pound → Dollar Shift	**Figure 11. Present Dollar → Multipolar Shift**
Economic ascendance of the U.S. after Britain's relative decline	Rise of the Eurozone and China alongside U.S. fiscal and trade imbalances
Financial technological innovations (telegraph, transatlantic cables) that made the use of currency more widespread Digital payment systems, CBDCs, block chain that made non-dollar payment possible.	Non-dollar transactions with the help of block chain and digital payment systems, CBDCs.
Financial technological innovations (telegraph, transatlantic cables) that made the use of currency more widespread Digital payment systems, CBDCs, block chain that made non-dollar payment possible.	Continuous euro, Yuan, gold, and digital diversification.



Figures 10 and 11, represent the transition of the British pound to the U.S. dollar as the reserve currency, influenced by the geopolitical and economic changes following the two World Wars and the introduction of Bretton Woods (Eichengreen, 2011; Eichengreen and Flandreau, 2012; Bordo *et al*., 2019). The right panel (2000-2023) represents the current situation in the global reserve currency, where the U.S. dollar still remains dominant, but slowly loses market The euro rose in the early 2000s but has stagnated, whereas the Chinese Yuan has increased slightly since its inclusion in the IMF SDR basket in 2016 (IMF, 2023; BIS, 2023; Kiff *et al*., 2020). The figure represents the historical experience and current signs of a slow transition to a more diversified, multipolar system of reserve currencies.

The point of difference now is the absence of an obvious successor. The dollar has taken over the position of the pound as the only global reserve currency, yet a multipolar system that could also incorporate digital currencies is becoming more prevalent (Cohen, 2015; Kiff *et al*., 2020; BIS, 2023).

METHODOLOGY

Detailed Research Design, Data Collection Procedures, Analytical, and Validation Strategies

The analytical methodology employed in this study is qualitative and comparative, based on the analysis of secondary data (Eichengreen, 2019; Cohen, 2015). The first objective is to find out whether the euro can replace the U.S. dollar as the world reserve currency, and the second objective is to analyze the systemic limitations of the Chinese Yuan and the possibility of a multipolar reserve system (Prasad, 2021; Aizenman *et al*., 2022).

The findings are based on numerous credible sources: the reports of international organizations like the IMF (2024), World Bank (2023), ECB (2023), and BIS (2024) provide background information. To create a complete and evidence-based picture, peer-reviewed literature and working papers are included (Eichengreen & Flandreau, 2012; Kiff *et al*., 2020)

The triangulation method employed in the study, which cross-validates the institutional data with peer-reviewed materials and analytical commentary by leading scholars, helped to ensure the reliability and academic integrity of the research results, as well as to identify the limitations of secondary data, such as delays in the institutional reporting and source discrepancies.

The interest period is 2000-2024, including the most important events of the global financial crisis in 2008 and Eurozone debt crisis (Tooze, 2022), the inclusion of China in the SDR basket (IMF, 2016), and the COVID-19 and the uncontrollable spread of digital currencies (IMF, 2024; BIS, 2024).

The cases are compared and contrasted. The analysis compares the U.S. dollar, euro, and Chinese Yuan based on the criteria developed in the past literature: economic size, liquidity, institution trust, currency convertibility, geopolitical leverage, and preparedness of digital innovation (Kindleberger, 1981; Cohen, 2015; Eichengreen, 2019; Prasad, 2021). The cross-border settlement patterns, share of foreign exchange transactions and reserve accumulation patterns are analyzed (IMF, 2024; BIS, 2024).

Table 8: The Major Evaluation Criteria of Reserve currency status

Criteria	**US Dollar** US	**Euro** EU	**Chinese Yuan** CN	**Source/Indicator**
Economic Scale	Largest GDP	Second-largest bloc	Second-largest GDP	IMF, World Bank
Liquidity	Very High	High	Moderate	BIS Triennial FX Survey
Institutional Trust	Strong	Moderate	Limited	World Governance Indicators, Transparency Index
Currency Convertibility	Full	Full	Limited	IMF Article IV Reports
Geopolitical Leverage	High	Moderate	Growing	Foreign Policy Journals
Digital Innovation Readiness	Moderate	Maturing	Advanced	BIS Reports on CBDCs.

Table 8. This study relies on the Bank of International Settlement (BIS) payment reports, the International Monetary Fund (IMF) Currency Composition of official foreign exchange reserves (COFER) database, and European Central Bank (ECB) statistics to monitor the changes in the usage of different currencies and central bank activity over time (IMF, 2024; BIS, 2024; ECB, 2023; World Bank, 2023). It compares patterns in trade payments made in Yuan, loans extended in euros, and the global percentage of dollars to reveal changing reserve preferences occurring in practice (Aizenman & Lee, 2007; Prasad, 2021).

The comparisons of trends in Yuan-denominated trade settlements, euro-denominated lending, and the global dollar share are compared over time to reflect the changes in reserve preferences that are being implemented in practice (IMF, 2024; BIS, 2024; Eichengreen & Flandreau, 2012). This approach provides an objective assessment of whether the global financial system is evolving or maturing into a more diversified, multipolar system or approaching a post-dollar era. This is achieved by combining theoretical knowledge with real trends (Cohen, 2015; Tooze, 2021).

It is also important to mention that no direct contribution of the policymakers, currency strategists, or financial professionals is present in this study. However, it employs a comprehensive qualitative and comparative approach, institutional databases, and peer-reviewed literature (Eichengreen, 2019; Prasad, 2021; Aizenman *et al*., 2022). Much of the analysis is founded on secondary data collected from numerous sources, including the International Monetary Fund, the Bank for International Settlements, the European Central Bank, and academic studies. All sources were employed to compile the data.

The lack of original qualitative data restricts the interpretive richness of the study, especially on the factors of politics, legal restrictions, and institutional attitudes that affect decision-making in managing a reserve currency and the realization of a CBDC. Prasad (2021), Tooze (2021), and BIS (2023) have noted that the shift to a multipolar financial system will need macroeconomic underpinnings, elite dispositions, strategic risk management, and changing policy philosophies.

Semi-structured interviews with central bank officials, International Monetary Fund consultants, or leaders of the digital currency task force could be used in future research to enrich the structural analysis by providing attitudinal and behavioral insights into the decision-making process of the practical implementation of reserve currencies (BIS, 2024; ECB, 2023). Survey data on reserve managers, sovereign wealth funds, and development finance organizations would be useful in this regard.

Limitations and Future Research

The study is based on secondary sources and published institutional reports which limits direct access to the views of the policymakers and the actual processes of strategic decision-making in real-time, e.g., the examples of semi-structured interviews with central bank officials of the European Central Bank, the People Bank of China, and economic central banks of Nigeria, Argentina, and Brazil.

These interviews may give useful information on:

1. Internal debates concerning strategies for reserve diversification;
2. Perceived risks and institutional incentives related to digital currency innovation;
3. Attitudes toward U.S. financial dominance and the application of financial sanctions.

The inclusion of these primary sources would enhance the empirical base of the analysis and would bring the academic research closer to the current policy practice.

Quantitative Statistical Analysis of Reserve Currency Drivers:

This study uses a statistical specification to verify the correlation between the main structural variables and the share of reserves in the world foreign exchange, as well as qualitative and historical data (Eichengreen, 2019; IMF, 2024; BIS, 2024). This method would allow testing hypotheses in the previous sections based on empirical data.

Model Overview:

Panel data from 2000 to 2024, comprising the three main reserve currencies the United States dollar (USD), the euro (EUR), and the Chinese Yuan (CNY) are used. The dependent one is the proportion of total world reserves in each currency (IMF, 2024; BIS, 2024).

Table 9: The independent variables represent the most frequently mentioned variables in the reserve currency research

Variable	Description	Source
Convertibility	Currency that can be fully changed? (1 = yes; 0 = no)	IMF
Capital Openness	The score on the Chinn-Ito KAOPEN index	Chinn & Ito (2023)
Institutional Trust	A combination of both governance and openness indicators.	World Bank, Transparency Intl.
Bond Market Size	Sovereign bond market as a percentage of GDP	BIS, ECB
CBDC Development	Pilot/launch stage advanced? (1 = yes, 0 = no)	BIS
Trade Integration	Part of world trade that is billed in that currency	UNCTAD, WTO

Table 9. The following variables are listed in Table 9, currency convertibility (IMF, 2024), capital account openness, assessed with the help of the Chinn-Ito KAOPEN index (Chinn and Ito, 2023), institutional trust, measured with the help of the indicators of governance and transparency (World Bank, 2023; Transparency International, 2023), sovereign bond market size in relation to GDP (BIS, 2023; ECB, 2023), and central bank digital currency. These variables are combined to give a systematic approach to the evaluation of the structural and institutional basis of reserve currency status.

Data Modeling and Empirical Analysis

Objective

This paper provides an empirical investigation into the factors that determine reserve currency status. This section supplements the qualitative and theoretical findings of the study. The goal is to analyze the reason why the distribution of global reserves between the US dollar, the euro and the Chinese Yuan can be determined by macroeconomic and institutional factors such as currency convertibility, market liquidity, political stability, and technological innovation.

Hypotheses

H1: Institutional trust, capital account openness, and currency convertibility have a positive relationship with a currency's share of global foreign exchange reserves.
H2: The development of the eurozone bond markets and digital currency innovation (e.g., the digital euro) have a positive impact on the reserve share of the euro.
H3: The reserve share of the Yuan is constrained by capital controls, absence of transparency and strategic depreciation policies.

Data and Variables

The data used in this paper is the panel data between 2000 and 2024. It uses the three main reserve currencies: the United States Dollar (USD), the Euro (EUR) and the Chinese Yuan (CNY). The dependent variable is the reserve share of each currency its proportion of total world foreign exchange reserves. The data will be gathered using the International Monetary Fund (IMF) Currency Composition of Official Foreign Exchange Reserves (COFER) database.

To measure the drivers of reserve currency distribution, we chose the explanatory variables that persistently feature in the international finance and monetary economics literature and include macro-financial characteristics and institutional factors that define the adoption and sustainability of a currency as a

reserve asset (Chitu, Eichengreen, & Mehl, 2014; IMF, 2024).

Table 10: Major Variables to determine the Determinants of the Global Reserve Currency

Variable	Definition	Source
Reserve Share	% of global reserves held in a currency	IMF COFER
Currency Convertibility	Dummy: 1 = fully convertible, 0 = otherwise	IMF Annual Reports
Capital Account Openness	Chinn-Ito Index (KAOPEN)	Chinn & Ito (2023)
Institutional Trust	Composite index of Transparency & Rule of Law	World Bank WGI, Transparency Intl.
Bond Market Size	The % of GDP in sovereign bond issuance	BIS and ECB Statistics
CDC Development	The Dummy: 1 = advanced pilot stage, 0 = none/early stage	BIS (2023)
Trade Integration	The % share of global trade denominated in each currency	UNCTAD, WTO

Sources: (BIS, 2024; Kiff *et al.*, 2020).

The table 10, shows the variables, which are used in the empirical study of the reserve currency determinants, the dependent variable is the percentage of global foreign-exchange reserves in each currency (IMF, 2024). Key structural and institutional predictors of reserve currency adoption are the independent variables.

One of the factors that reflect structural and policy-based determinants of currency strength is central bank digital currency (CBDC) development, which implies the policy or pilot implementation stage (BIS, 2024; Kiff *et al*., 2020), reflecting the conditions of currency reliability. The depth of bond-market and preparedness of CBDC are dynamic elements of the dynamic digital finance environment that can make a currency more appealing, integrating traditional indicators with digital and geopolitical ones.

Case Studies in Reserve Currency Diversification and CBDC Adoption:

The responses of nations are also considered to understand how the countries are responding to the changes in global currency environment and the importance of CBDCs. Reserve management policies are being updated by many emerging and middle-income economies through diversification of currency reserves and through digital currency pilot projects (Iancu *et al*., 2022; BIS, 2022).

Russia Sanctions Pressure Accelerates De-Dollarization:

The experience of Russia shows that geopolitical shocks and sanctions can assist in pushing the countries to dump the dollar more quickly and diversify their reserves. After the invasion of Ukraine in 2022 and the following Western sanctions, the Central Bank of Russia radically decreased its reserves in U.S. dollars and turned to gold, the euro, and the Chinese Yuan (CNY) (Carstens, 2024; Aizenman *et al*., 2022; IMF, 2024). By June 30, 2021, the Chinese Yuan accounted for about 13.1 percent of the foreign exchange reserves of Russia, which continued to stand at approximately 13 percent as of 2022, following the 2022 invasion (European Central Bank, 2022; Aizenman *et al*., 2022; IMF, 2024).

Russia has also expanded the use of Yuan in energy transaction and enhanced relations with the Cross-border Interbank Payment System (CIPS) of China, which is not only a reason to fragment systems, but also a desire of marginalized economies to become less dependent on Western-dominated financial systems.

Argentina Bilateral Swap Agreement and Yuan Settlement:

As an example of how currency diversification can mitigate reliance on one currency, Argentina began bilateral swap deals with the People's Bank of China in 2023, and Argentina began rendering some of its import transactions in Chinese Yuan, which will reduce its dependence on the U.S. dollar in important trade activities.

The trend is supported by Argentina as a member of the Belt and Road Initiative (BRI) of China, as well as the attempts made by Beijing to promote the Yuan in the world market, using swap lines and trade financing despite the fact that the Yuan is not fully convertible and deeply liquid (Aizenman *et al*., 2022; Prasad, 2021; IMF, 2024).

Nigeria CBDC Innovation and Regional Monetary Strategy:

Nigeria is an example of how a non-reserve-currency country can become a digital currency innovator in 2021, the Central Bank of Nigeria became the first African country and the second in the world (after the Bahamas) to launch a central bank digital currency (CBDC), called eNaira, which is supposed to co-exist with the physical naira (BIS, 2023; IMF, 2024; Kiff *et al*., 2020).

Although not widely used, the initiative in Nigeria demonstrates that developing countries are generally interested in establishing monetary sovereignty using digital tools, as well as BRICS+ initiatives to create alternative cross-border payment systems (Tooze, 2022; Aizenman *et al*., 2023), which is in line with the world moving towards monetary multipolarity.

Brazil and BRICS+ Networks of Regional Currencies and De-Dollarization Dialogue:

As one of the founding members of BRICS, Brazil has contemplated a shared bloc reserve or settlement currency, which suggests its displeasure with the dominance of the dollar and its acceptance of a more multipolar financial system (Aizenman *et al*., 2022; Prasad, 2021). Its currency swap partnerships with China and participation in digital initiatives such as mBridge show that Brazil is open to other financial solutions.

The developments demonstrate that the diversification of reserves is already taking place, especially in economically or geopolitically constrained countries, with domestic and foreign e-currencies, including eNaira in Nigeria and e-CNY in China, being viewed as a solution to increase monetary autonomy and supplement other methods of payment (BIS, 2024; Prasad, 2021; Eichengreen, 2019).

The following table presents key reserve diversification and CBDC policies in the chosen countries, their reasons, and the impacts on the international financial system.

Table 11: Reserve Diversification and CBDC Strategies in the Selected Countries

Country	Key Action(s)	Motivation(s)	Currency Shift / CBDC Use	Implication for Depolarization
Russia	Sold USD reserves; added Yuan and gold; became a member of CIPS	Non-member of the SWIFT, strategic reliance on China	Yuan share in reserves increased dramatically after 2014	Illustrates geopolitical acceleration of de-dollarization.
Argentina	Bilateral Yuan swap agreements; trade settlement in Yuan	Dollar shortages, inflation instability, access to Chinese credit	Increased Yuan use in bilateral trade	Illustrates geopolitical acceleration of de-dollarization
Nigeria	Introduced eNaira CBDC as a retail and a possible trade use.	Financial inclusion, modernization of payment, ambition of leadership in the region.	Domestic use of CBDC; BRICS currency dialogue interest.	Points out proactive use of CBDC by non-reserve economies.
Brazil	BRICS discuss alternative reserve currency; swap deals with China.	Stabilize dollar, monetary independence, and regional. monetary sovereignty	Considering cross-border digital projects; e-CNY pilot project in cross-border. trade; integrated with CIPS	Signs of multipolar ambitions in large emerging bloc.

Table 11. Nigeria CBDC Innovation and RegionalMonetary Strategy: Nigeria is an example of how a non-reserve-currency country can become a digital currency innovator: in 2021, the Central Bank of Nigeria became the first African country and the second in the world (after the Bahamas) to launch a central bank digital currency (CBDC), called eNaira, which is supposed to co-exist with the physical naira (BIS, 2023; IMF, 2024; Kiff *et al*., 2020).

The table below, which is in the Analysis and Discussion section, indicates that states are already diversifying their reserves as a result of geopolitical shocks, structural imbalances, and strategic goals, and new bilateral swap agreements, CBDC projects, and regional digital currency projects are all signs of such a paradigm shift in the international monetary coordination.

ANALYSIS AND DISCUSSION

In This Section, a Comprehensive Analysis of Research Findings, Interpretation of Results, and Theoretical Implications is Presented

The increasing geopolitical tension, the changing trade patterns, and the financial technology are leading to a review of the global currency system. The euro and Chinese yuan have become major substitutes for the US dollar, with their own strengths and weaknesses. Here we discuss the possibility of the euro replacing the dollar and the reason why the yuan has not yet been a real threat despite the economic might of China.

Table 12: Comparative Institutional and Economic Characteristics of Leading Reserve Currencies

Criteria	U.S. Dollar (USD)	Euro (EUR)	Chinese Yuan (CNY)
Reserve Share (2024)	-59%	-20%	-3.5%
Currency Convertibility	Fully convertible	Fully convertible	Limited convertibility
Institutional Trust	High	Moderate	Low to Moderate

Criteria	U.S. Dollar (USD)	Euro (EUR)	Chinese Yuan (CNY)
Use in Global Trade	Extensive	Moderate	Growing
Capital Account Openness	Fully open	Mostly open	Restricted
Monetary Policy Transparency	High	Moderate	Low
Fiscal Union/Coordination	Unified (Federal)	Fragmented (EU-level)	Centralized (Authoritarian)
Digital Currency Development	In progress (FedNow)	Advanced (Digital Euro)	Advanced (e-CNY pilot)
Geopolitical Influence	Very High	Moderate to High	High (Regional)

Source: (IMF, 2024; BIS, 2024; Prasad, 2021).

Table 12 compares the institutional and economic backgrounds of the US dollar, euro, and Chinese Yuan as reserve currencies. The dollar is predominant due to complete convertibility, great institutional confidence, open capital markets, and extensive application in international trade. The euro is weaker and constrained by fiscal fragmentation. As it expands, the Yuan is constrained by its low convertibility and institutional opaqueness, though there is the development of digital currencies.

Strengths and Continued Challenges of the Euro:

The euro is the most stable alternative when compared to the US dollar. EU is proud of having a massive single market, powerful institutions, including the European central bank, and broad financial markets, besides having the euro as a key currency in trade finance, lending and issuing bonds in Europe, North Africa, and parts of Asia (ECB, 2023)

The political instability in the Eurozone compromises the ability of the euro to be a complete substitute for the U.S. dollar. The long-standing disputes between member countries, the inability to introduce a single fiscal approach, and the clash between financial interests have undermined confidence in the long-term stability of the euro (Feldstein, 2017). Despite a proportion of about 20 percent relative to that of the U.S. dollar, which stands at 59 percent (IMF, 2024).

The introduction of a digital euro could increase its international presence, particularly in international payments. Fiscal integration would not make the euro one of the leading world currencies; it would simply be a secondary reserve currency.

Strategic and Potential Constraints of the Yuan:

China has tried to internationalize the Yuan through bilateral currency swaps, the Belt and Road Initiative, and the IMF Special Drawing Resources (SDR) basket. The People's Bank of China has launched e-CNY and invested in payment systems like CIPS to reduce reliance on SWIFT (Subacchi, 2020).

However, the Yuan is a minor reserve holder, having less than 4 percent of reserves (IMF, 2024), which is a disadvantage to the Yuan as a store of value, a major requirement of a reserve currency. China has been practicing currency devaluation to boost its export competitiveness, which compromises the Yuan as a store of value. While it makes Chinese products cheaper in foreign markets, foreign central banks are discouraged by capital controls, inadequate convertibility, and institutional opacity (Prasad, 2021). Without significant structural changes, in the first place, liberalization of financial markets and stability, the Yuan will not become a reserve currency (BIS, 2024; PBoC, 2023).

Dollar Dominance and the Case of Depolarization:

The U.S. dollar enjoys a privileged position as a safe asset due to its institutionalized position and institutional confidence. The reason is due to the high liquidity of the U.S. Treasury markets and the global nature of dollar-based transactions. Since the dollar is central to global finance, the global economy is susceptible to U.S. policies, sanctions, and interest-rate fluctuations (Tooze, 2021).

This has led to active diversification of reserve currencies and the trade settlement systems of many countries, especially in the Global South, with regional bloc such as BRICS discussing local-currency trade, and the central banks slowly transitioning to less dollar exposure in favor of euros, Yuan, and gold (Aizenman *et al.*, 2023).

These changes are leading to a future in which the world will have not just one dominant currency but a multiplicity of major international currencies. That is, it is highly improbable that any of the major international currencies will completely replace the U.S. dollar as the world's primary reserve currency in the near future. The dollar is likely to remain dominant at least until the year 2040. A combination of trusted currencies the euro, Yuan, and possibly digital currencies will gain global influence.

Potential Future Trends and Implications

Future Improvements, New Opportunities, and Their Possible Impact on the Field

The future of the global economy will be shaped by decentralization, technological advancements, and a growing demand of financial sovereignty, even though the dollar may continue to be the main reserve currency, a more diverse and competitive global reserve currency ecosystem will arise (Chinn & Frankel, 2022).

System Multipolar Reserve Currency:

The introduction of digital currencies, including central bank digital currencies (CBDCs), is putting the

traditional reserves in a challenging situation. The central banks, including the European Central Bank and the People's Bank of China, are putting more effort into piloting CBDCs (BIS, 2023; BIS, 2024; ECB, 2023; PBoC, 2023).These efforts are meant to ensure that payments are more efficient and less expensive and the outdated systems are eliminated, and the use of technology can facilitate direct currency to currency payments without the need of using the dollar in trade.

China is piloting its electronic Yuan (e-CNY) as a global currency, which may enable transactions without converting them into dollars, although there are several issues, such as privacy, interoperability, and regulation. A successful digital euro would boost the presence of the EU in the world.

Disruptive Forces of Digital Currencies:

Central banks like the European central bank and the people bank of China are speeding up piloting projects of CBDCs, which creates a challenge to the traditional reserve systems (BIS, 2023; BIS, 2024).

Factors Affecting Policy, Trade and International Relations:

Currency value fluctuations should be control by policymakers. Countries that want to improve the level of their currencies have to invest in currency convertibility, legal strength, and transparency. Multipolar reserve systems make it difficult to manage currency risks and build multinational portfolio by investors.

A weaker dollar will make the U.S. less capable of imposing sanctions and influencing financial regulations in the world, which can strengthen regional power and provide developing countries with increased economic freedom, but a weak system of reserve currencies may weaken global financial integrity, raise transaction costs, lower the efficiency of operations, and increase market volatility in time of crisis (IMF, 2024; BIS, 2024).

With such tendencies, there are few chances that one reserve currency will prevail in the future as the global economy is moving towards a multi-currencies system (especially digital ones) with varied interactions based on the context of use, politics, and economic factors.

Multipolar Reserve Currency System Transition Risks:

A multipolar system provides the countries with a wider range of options and freedom, yet it also introduces new structural issues. One risk is the liquidity turning into fragments. The dollar has extremely deep and highly connected markets (particularly U.S. Treasuries), which many other reserve currencies lack (Tooze, 2021). In case reserves are distributed across a large number of assets, the overall market depth would decrease, and policymakers would no longer be able to respond to a crisis in a timely and effective manner.

Without the presence of one dominant currency in a system, the exchange rates are more likely to change drastically, and the international trade and investment will be more uncertain (Eichengreen, 2019, p. 45). Geopolitics, changes in policies, and fluctuations in market moods will have a more direct impact on the price of currency and international trade and investment will become more unpredictable.

The absence of coordination is another risk. In a decentralized system, a single body is not in charge of ensuring monetary stability, which may make responding to a crisis more difficult (or even impossible) and create more systemic vulnerability (Borio & Disyatat, 2017). It is more problematic to developing economies. Instead of making them less unstable, reserve diversity can make them more unstable In order to win in multipolarity, there is a need to establish effective legal frameworks, interoperable payment technology, and enhanced coordination of central banks.

Underrepresented Reserve Currencies Yen, Pound, and Franc:

The U.S. dollar, euro, and Chinese Yuan are the most common reserve currencies; other currencies, however, also have significant but minor roles in the global financial system. The reserve currencies of the past include the Swiss franc (CHF), the British pound sterling (GBP) and the Japanese yen (JPY).

The Japanese yen has approximately five percent of the world reserves, attributed to the high government bond market and political stability in Japan. Even though it has experienced low growth over the years, Japan is an appealing financial hub in East Asia because of its ease of doing business and liquidity in the market (IMF, 2024).

The British pound is still relevant because of the presence of a major financial center in the UK and good legal institutions; the share of the pound has remained at four to five percent even with the Brexit uncertainty.

In the context of market turbulence, the Swiss franc is popular among central banks due to its stability, low inflation, and safe-haven status, as the banking assets of the country are considerably higher than the GDP (IMF, 2024; BIS, 2024).

The omission of these currencies in reserve analysis may miss the wide range of hedging mechanisms employed by central banks to sustain stability even in situations where the dollar or the euro is subject to market instability. Chinn and Frankel (2008) observe that such currencies may also serve to provide buffers of stability even in the case where the dollar or the euro is dealing with market instability.

Table 13: Comparative Characteristics of Secondary Reserve Currencies

Criteria	Japanese Yen (JPY)	British Pound (GBP)	Swiss Franc (CHF)
A contribution to the reserves currency of the world in the year 2024	=5.4%	=4.6%	<1%
The ability to convert currencies	Fully convertible	Fully convertible	Fully convertible
Institutional Trust	High	High	Very High
Liquidity	High (deep bond markets)	High (London FX markets)	Moderate
Use in Global Trade	Moderate	Moderate	Low
Status of Safe Haven	Moderate	Moderate	High

Table 13, the comparative analysis of the institutional and macroeconomic characteristics of the U.S. dollar (USD), euro (EUR) and Chinese Yuan (CNY) as major world reserve currencies, has the benefit of complete convertibility, high institutional confidence, open capital accounts, and globalized trade but has the drawback of a fragmented fiscal framework and moderate geopolitical power. Despite the improvement of the Chinese Yuan, which is facilitated by the e-CNY pilot and local trade agreements, capital controls and partial convertibility, as well as institutional transparency, continue to restrain this currency (IMF, 2024; BIS, 2024; World Bank, 2023; Transparency International, 2023)

This comparison reveals that these currencies contain a smaller amount of reserves compared to the euro or the dollar, but they are convertible, legally secure, and have macroeconomic stability. To hedge foreign exchange risk (or to reduce geopolitical risk), most central banks, especially where they are an exporter, will increase their reserves in other reserve currencies when the U.S. dollar is volatile or when there is increased geopolitical tension. The very fact that these currencies still are listed in international reserves demonstrates that multipolarity is not exclusive to digital technology and finances. Stable and long-established currencies that have particular roles in international finance also belong to this category.

The Limitations and Future Studies Areas

Although this Study Gives a Clear Picture of the Evolution of Reserve Currencies in the Course of Time, it Should Be Mentioned That There is a Limit to the Amount of Reserve Currencies that Should Be Examined in the Scope of Further Research

Lack of Primary and Empirical Data Analysis

The study relies solely on secondary data collected by different international organizations and academic journals. It does not use econometric modeling, forecasting, or any new methods for collecting new data. Gopinath (2022) and Eichengreen (2019 p. 45) recognize the role of empirical research in determining the reasons behind currency volatility, as well as in confirming predictions made by theoretical models.

Narrow Currency Scope:

This study uses the United States dollar, the euro, and the Chinese Yuan as the main topics. Other reserve assets of interest, such as the Japanese yen, the British pound, and SDRs are not included. Though these currencies are regarded as secondary, Chinn and Frankel (2008) opine that they contribute significantly to the global pattern of diversification and must therefore be included in reserve currency studies.

Inaugural Reporting on CBDCs:

This paper presents the concept but does not delve into it in a serious manner, although CBDCs represent a very novel field of study, it does not touch upon several important technological and governance issues, such as interoperability, data protection, and the formatting of the underlying infrastructure. The BIS (2024) and Kiff *et al*., (2020) argue that these are crucial to the adoption of CBDC and global financial integration.

Lack of Scenario Modeling or Forecasting:

This article does not provide any scenario-based forecasting or predictive modelling and largely assumes that the dollar will be the dominant currency until 2040, as a result of which it does not indicate how the reserve-currency system would respond to a major macroeconomic or geopolitical shock, which is a very serious limitation. According to Aizenman *et al*., (2023) and Gourinchas and Rey (2021), these models are required to evaluate how the stress events or policy alterations affect the reserve-currency dominance and distribution.

Limited Regional and Sectorial Lenses:

This article does not adequately cover the responses or influences of various regions on the global currency changes, particularly Africa, Latin America, and Southeast Asia, but Subramanian (2015) and Avdjiev *et al*., (2018) argue that regional trade bloc and monetary unions significantly shape the payment and reserves of countries.

One of the Limitations is the Insufficient Investigation of Transition Risks:

This paper does not examine the risks of a transition to multiple polarities, such as higher volatility,

higher transaction costs, and lower market liquidity, but it can support the transition. As Tooze (2022) and Borio and Disyat (2017) note, currency fragmentation may make the systemic crisis more vulnerable and should be taken into account.

Policy Recommendations

This paper demonstrates that CBDCs can significantly enhance financial systems. Similar to any other useful device, they are ineffective without proper design, use and management. This should be aimed at maximizing benefits and reducing risks to financial stability, inclusion, and trust. Policy suggestions to policymakers, central banks and international organizations are provided below.

For Policymakers:

Start Small, Scale Smart:

Introduce small pilot programs and then expand to the whole country. Pilots help to identify design flaws, technical issues, and the inability to embrace new designs at the initial stage (BIS, 2023; IMF, 2023).

Revise Legal and Regulatory Structures:

Reform and rethink the existing legal frameworks to explicitly treat CBDCs as a legal tender, and come up with extensive regulations to ensure good consumer protection and data privacy in line with the current technological advancement (World Bank, 2023; IMF, 2024).

Embrace Financial Inclusion:

CBDCs must be made as inclusive of the entire population, especially the rural, unbanked, and underserved communities through proactive efforts to eliminate digital connectivity challenges, infrastructure disparities, and user accessibility issues.

For Central Banks:

Ensure CBDCs are Universal:

CBDs should be universal to the citizens, and rural and underserved populations in particular by tackling the obstacles to digital access and use including poor internet connectivity, the absence of digital and financial literacy, and poor digital infrastructure (World Bank, 2023; IMF, 2023). Strengthen Cyber security: Invest in the multi-layered security frameworks, real-time threat detection and intensive incident response to counteract cyber-attacks (BIS, 2023).

Protect Monetary and Financial Stability:

The readiness to ensure that individuals do not withdraw large amounts of CBDC or adjust the interests' rates to ensure that commercial banks do not empty systemic liquidity and stability (IMF, 2024).

For International Organizations:

Promote Global Integration:

International rules and technical standards are to be encouraged to make sure that the central bank digital currencies are compatible across borders to enable the establishment of a stable and integrated global payment system (BIS, 2023; IMF, 2024).

Encourage Developing Economies:

The emerging economies can be supported to grow safely and effectively with the help of technical assistance, capacity building, and investment in the infrastructure (World Bank, 2023; IMF, 2024).

Track Macro-Financial Spillovers:

Constant monitoring of the effects of the implementation of CBDC on the exchange rates, capital flows, and financial stability will be carried out in economically interconnected regions (IMF, 2024; BIS, 2024; Kiff *et al.*, 2020).

CBDC Risk-Benefit Matrix:

The following table lists the key opportunities and risks associated with the implementation of CBDC in different regions. The framework assists leaders, researchers, and financial experts to gain a clearer understanding of how CBDCs might transform the global monetary system, in addition to outlining the challenges they might introduce (BIS, 2021; IMF, 2024; World Economic Forum, 2023).

Table 14: CBDC Risks and Benefits by Region a Comparative Matrix

Region / Currency Bloc	Opportunities	Risks
Advanced Economies	- The Faster, cheaper payments for businesses and consumers. - The Stronger monetary policy tools for central banks. - The Less dependence on a few private payment providers.	- The Possible outflow of deposits from commercial banks. - The greater vulnerability to dangers from the internet - The Public concerns about data privacy.
Emerging Markets	- The More people gain access to banking and digital payments. - The Lower remittance costs for families. -The Better cross-border payment options.	- The Currency volatility in case foreign CBDCs become commonplace. - The Gaps in digital infrastructure. - The risk of external CBDCs dollarization.
Small / Island Economies	- The New payment channels that reduce reliance on correspondent	- The Dependence on the external CBDC systems.

Region / Currency Bloc	Opportunities	Risks
	banking. - The Lower trade transaction costs. - In the event that disruptions occur, increased resilience.	-The Limited ability to protect against cyber threats. - The Vulnerability to policy shifts in larger economies.
International Cross-Border Use - Real time international transactions.	- Real-time international transactions. - The Less dependence on SWIFT and other middlemen. - The Lower costs for payments over the world.	- The Geopolitical fragmentation of payment networks is a risk. - The Unclear legal jurisdictions for disputes. - The Potential misuse of illicit finance.

Sources: Federal Reserve (2022); BIS (2021); IMF (2024); World Economic Forum (2023).

Table 14, summarizes the major advantages and disadvantages of the adoption of CBDC by region. CBDCs help advanced and emerging economies to enjoy better payment efficiency, increase financial inclusion, and better monetary policy instruments but also confront threats like cybersecurity risks, possible bank deposits outflows, and digital infrastructure gaps. Small economies can also enjoy the benefits of alternative payment channels but can over-depend on external systems. The CBDCs may help to decrease the cross-border costs, yet the legal and geopolitical issues may arise.

Although the matrix is not comprehensive, it shows the important factors that most apply in different contexts. The biggest challenge facing industrialized countries is balancing financial stability threats against efficiency gains. When considering smaller economies and emerging markets, it must be given first priority to develop infrastructure and barriers to external shocks or excessive reliance on foreign systems. The application of CBDCs on the global scale would make things more efficient, but close coordination is required to prevent fragmentation and regulatory gaps. This table would allow policymakers to design and test strategies in various settings.

CONCLUSION

Summary of Major Findings, Study Results, and Recommendations on Future studies

The global reserve currency system is at a turning point. Despite the U.S. dollar as the currency of choice in the world with unmatched liquidity, institutional credibility and historical entrenchment, there are increasing challenges presented by shifting geopolitics, technological progress and strategic agendas of other major economies. This paper has discussed the growing potential of the euro and the Chinese Yuan (CNY) as alternative reserve currencies in a diversifying international monetary order.

The most probable competitor to the dollar is the euro since the Eurozone economy is large, the European Central Bank is reputable, and most central banks seek to diversify their reserves. However, the euro faces long-term issues. It has the weakness of institutional weaknesses and the absence of a full fiscal union between the EU member states.

The future of the Chinese Yuan is not as easy as it is backed by the second-largest economy in the world and the efforts to spread the idea of exports like the Belt and Road Initiative, since the Yuan is less attractive as a global store of value, as one of the most significant functions of a reserve currency, due to its low convertibility, obscure monetary policy, and supporting exports.

Overall, evidence suggests that the dollar will not be replaced in the short term. The system is gradually shifting toward multipolarity. The major aspects of this change include regional currency bloc, increased attention to monetary sovereignty, and the rapid introduction of central bank digital currencies (CBDCs). The U.S. dollar, in some form, will probably remain in the center stage in this new order, although regional and digital currencies are increasingly becoming significant in trade, payment, and reserves.

The policymakers, central banks and international institutions have no option but to be strategic in the world that is shifting towards reserve currency and the success of a country is no longer decided by the level of its economy, but by the confidence of its institutions, the stability of its monetary system and its legal system, its technological preparedness.

Way Forward

The future of global financial governance will be determined by collaboration over domination as financial stakeholders across the world seek to find ways that are adaptable to their institutional capabilities, regional conditions, and strategic priorities (IMF, 2024; BIS, 2024). As monetary multipolarity rises, collaboration will become the new normal of global financial governance (Aizenman *et al.*, 2022; Eichengreen, 2019).

The European Central Bank (ECB):

The bank should also move towards a digital euro to support cross-border and interbank transactions and complete fiscal integration in the Eurozone and the

completion of the Capital Markets Union to make assets denominated in the euro more attractive (ECB, 2023; BIS, 2023).

The People's Bank of China (PBoC):

China should open up its capital account progressively, make the exchange-rate policy more transparent, and modernize the legal institutions to enhance the confidence of foreign investors in the Yuan (Subacchi, 2020; Prasad, 2021; IMF, 2024).

The IMF and BIS, should facilitate the international interoperability of digital currencies. They must also offer capacity-building services to the developing economies and track the macro-financial spillovers of the implementation of CBDCs (Kiff *et al*., 2020; BIS, 2024; World Economic Forum, 2023).

For the United States of America:

The United States has a special position as the issuer of the most popular reserve currency in the world; but that does not mean that the position cannot be lost. In order to be ahead of the pack in the rapidly developing financial environment, the development of a protected, non-discriminatory digital dollar will be a crucial measure to remain competitive in the era of sovereign digital currencies (Federal Reserve Board, 2022; Gerringer & O'Toole, 2022). Moreover, the U.S. must be the first capable of leading by example by promoting transparent and fair international financial standards not through weaponization of the dollar, but through the advocacy of rule-based multilateralism to achieve common prosperity, trust, and institutional legitimacy in the international monetary system (Tooze, 2021; IMF, 2024).

Instead of avoiding the development of alternative currencies, financial leaders in all parts of the world, such as the United States, should strive to create a stable, inclusive, and collaborative global monetary system (BIS, 2024; World Economic Forum, 2023).

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