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Original Research Article

The End of Dollar-Only Power? Euro, Yuan and Digital Money in a Multipolar World

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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. This paper uses a qualitative and descriptive-quantitative approach based on empirical data provided by the IMF and BIS alongside the contributions of the hegemonic stability theory, network effects, and institutional trust to study the dynamic nature of global reserve currencies. It determines the competitiveness, credibility, and limitations of key reserve currencies. The results indicate that the dollar has fallen from above 70 per cent of the world reserves to approximately 58 per cent as at mid-2024. The euro has retained a consistent portion of about 20 per cent of the world reserves, with strong legal systems and effective monetary policy, but its expansive impact is limited by the fractured fiscal system and political disintegration of the Eurozone member states. The Yuan holds approximately 4 per cent of the global reserves. Despite China's financial influence is increasing globally, the international role of the Yuan remains limited because of China's capital controls, managed exchange rates, and financial transparency issues. 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 (Renminbi), 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 globe 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 that 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, there is 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 and the Chinese Yuan is also asserting itself in international trade and finance, with the growing geopolitical presence of China.

This strategic change is backed up by empirical evidence According to the estimates of International Monetary Fund (IMF COFER, 2000-2024), the dollar has reduced percentage of world reserves by about 70 per cent in 2000 to about 58 per cent of world reserves in mid-2024, but the euro has remained at about 20 per cent of world reserves. According to (BIS 2023; Auer et al. 2021). of the Bank for International Settlements, the present time is a pivotal moment in the management of

global reserves since over the past few years there has been a surge in central banks seeking to diversify their reserve portfolios due to growing trade tensions, geopolitical fragmentation, and the growing 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, 2025). 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 ((Broby, 2023; Brookings Institution, 2024).

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. Instead, new trends particularly the introduction of digital currencies like the eCNY and the digital euro- are strengthening a transition towards a more fragmented and multipolar reserve system where multiple major currencies co-exist. This development has significant consequences on 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; Broby, 2023)

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 (Broby, 2023).

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; Broby, 2023)

The dominance of the dollar gives the United States significant geopolitical influence, as it allows imposing sanctions, monetary spillovers, and manipulating 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 that was launched in 1999. Although this was initially a political instrument of European integration, it also sought to take on dollar hegemony (McNamara, 2008). Recent statistics provided by the European Central Bank (ECB) show that the euro is approximately 20 percent of global reserves in 2023, and a major international lending and bond currency, especially in Africa and Eastern Europe, with gold taking over the number one position. However, recent data from the European Central Bank (ECB) shows that in 2024 it is slightly reduced to 16 percent (IMF COFER, 2023–2024; ECB, 2024; WSJ, 2025).

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 COFER Database (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).

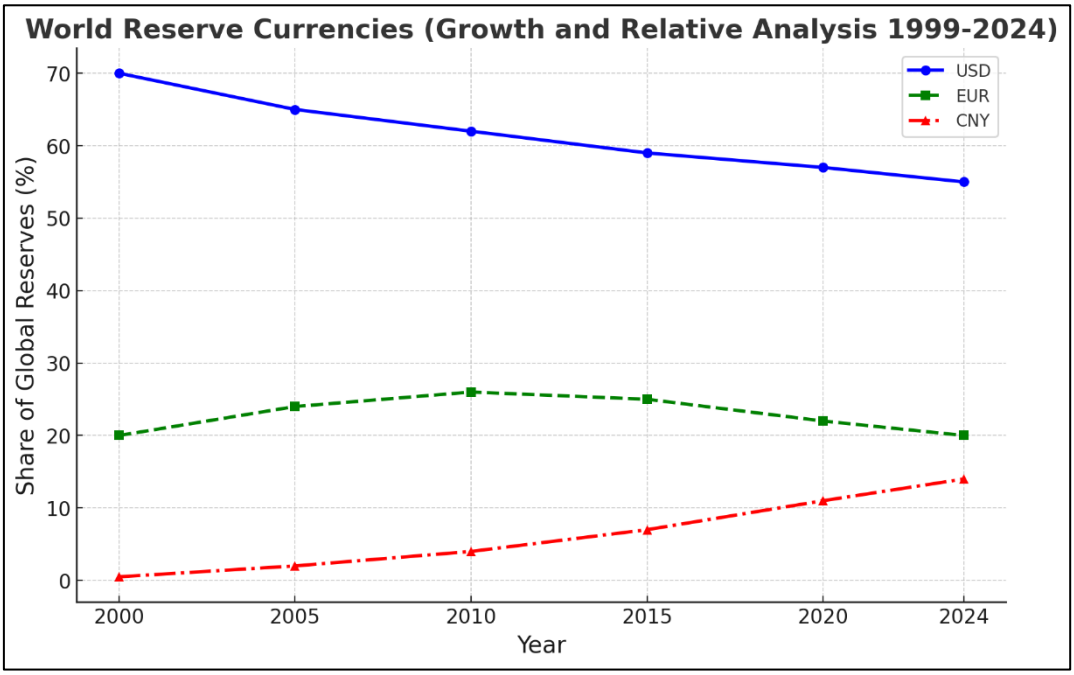

Figure 1: Demonstrates the variation in the global foreign-exchange reserve composition between the years 1999 and 2024.

Source: (IMF COFER, 2024).

This shows the comparative positions of the U.S. dollar, the euro, and the Chinese Yuan. Meanwhile, the euro has been maintaining a constant share of approximately 20 percent of the global reserves, reflecting its status as a credible but secondary reserve currency, and the Chinese Yuan, despite being a small player, has been steadily increasing its presence, which is an indication that it may become a reserve asset as China becomes more influential in the global trade and finance (IMF COFER, 2024; SWIFT RMB Tracker, 2024). In the meantime, the euro remains within the range of 20 per cent, and the Yuan has gradually and remarkably increased 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 U.S. dollar. The dollar is the most dominant reserve currency due to unparalleled liquidity, advanced financial markets and institutional 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 rise in the Yuan is indicative of the growing contribution of China in trade, but the reserve position of the currency remains restricted due to 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 (Siklos, 2024; SWIFT RMB Tracker, 2024; IMF COFER, 2024).

The lack of fiscal integration, the different levels of debts and the lack of uniform banking rules among Eurozone members undermine the strategic position of the euro as an alternative to the dollar. These contribute to the loss of investor confidence and the freezing 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, 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 an 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 RMB Tracker, 2024; Broby, 2023).

Nevertheless, this growing trade position has failed to yield a commensurate amount of world reserves. With fewer than 4% of the global reserves in foreign-exchange reserves, the Yuan continues to be underrepresented even after its inclusion in the Special Drawing Reserve of the IMF (SDR) in 2016, a major step in its internationalization. The causes of this limited reserve position include chronic capital controls, a managed exchange-rate regime and a constant fear 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 convert fully the Yuan and the financial governance of China lacks the institutional independence to hold the currency as a stable store of value.

Concisely, 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 of size of the economic entity and institutional preparedness takes place on the way to becoming a global reserve-currency.

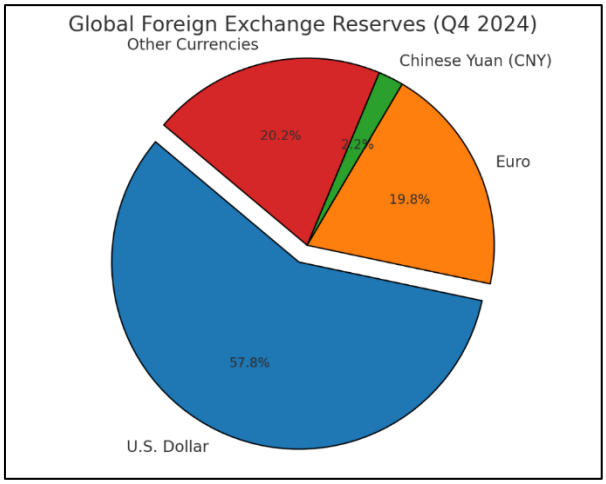

Figure 2: Composition in the Global Foreign Exchange Reserves by Currency (2024)

Figure 2. This chart shows that the U.S. dollar has been the dominant one since it controls 57.80 per cent of foreign exchange reserves globally in 2024. Euro is the second most important reserve currency with 19.83 percent and though still small with only 2.18 percent, the Chinese Yuan (CNY) is slowly making strides as an emerging reserve currency. Other currencies such as the Japanese Yen, British pound, and other minor currencies all demonstrate a more diversified composition of the reserves, indicating the slight changes towards a more multipolar currency order. Source: Data were collected from. IMF, COFER, & World Aggregates, Q4 2024.

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 less liquid market despite these endeavors, but 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 is still a very small reserve currency, making it less than 4 % of the total amount of total reserves on the global scale (IMF COFER, 2024). The systemic intention of China to keep its currency weak to maintain stable exports to the world at the cost of long-term trust, and the continued ability to control capital and make conversion difficult and unpopular (Broby, 2023).

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 *et al.*, 2020).

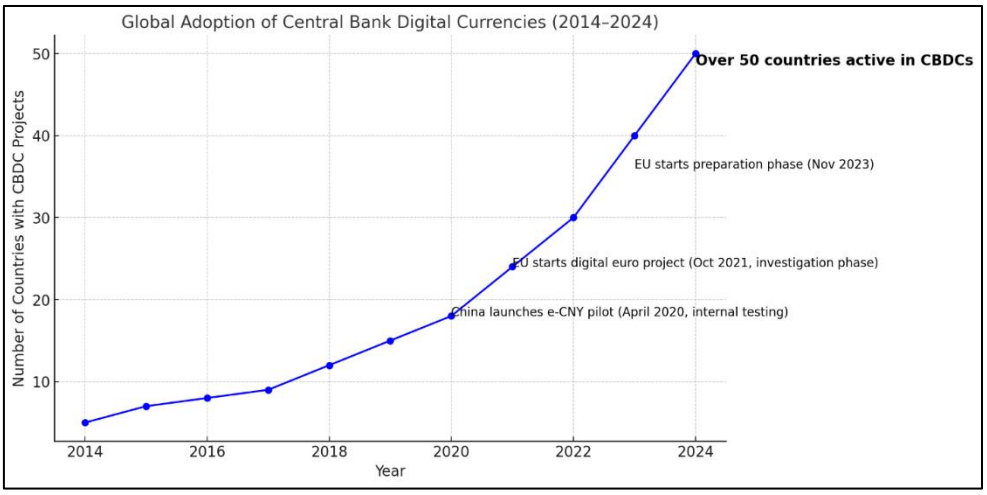

Figure 3: The Future of Central Bank Digital Currencies (CBDCs): Rapid Global Adoption, 2014–2024
Source: BIS, Survey on CBDCs, 2024.

Figure 3. This chart illustrates the number of countries that create or explore 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. Among the major developments are the introduction of the e-CNY pilot in China and the digital euro project in the European Union, both of which supercharged the momentum even further, the increasing number of CBDC projects is an indication of structural change in the global finance system, one that could help hasten the transition 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, it can be expected that in the future, the international reserves will not be controlled by a single currency but will transform 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 the ones relying on the current empirical trends, theoretical knowledge, and institutional reports (Eichengreen, 2019; BIS, 2023; Aizenman *et al.,* 2022), which can help comprehend potential futures.

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

In such case, the U.S. dollar would continue to reign as the global reserve, with 55–60 per cent 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 per cent and the Yuan would increase to at most 7 per cent to 9 per cent (IMF COFER, 2024 baseline; projected estimates).

Drivers: Continued demand of dollar-based safe securities, robust U.S. capital markets, military superiority and continuing dollar-denominated debts.

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: Remaining vulnerable to the volatility of the U.S. interest rates and policy fines, where not many innovative solutions are offered by competing currencies.

Scenario 2: Balanced Multipolar Reserve System.

By 2040 all three currencies, dollar, euro and Yuan, will be approximately equal shares of the global reserves, with USD occupying approximately 45, EUR approximately 25 and CNY approximately 15 of the reserves. 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 blocs, 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 represents less than 40 per cent of global reserves, and CBDCs (e-CNY, digital euro, BRICS digital currency) and tokenized gold/commodity assets represent 25–30 per cent of reserves. The adoption of the interoperable CBDCs, the advancement of the stable-coin regulation, and the investments in the digital infrastructure of the Global South constitute drivers. CBDCs will assume some of the key roles of SWIFT and dollar clearance and support programmable cross-border transactions. These risks involve a decrease in the U.S. financial strength, an increase in volatility, currency fragmentation, and administrative issues.

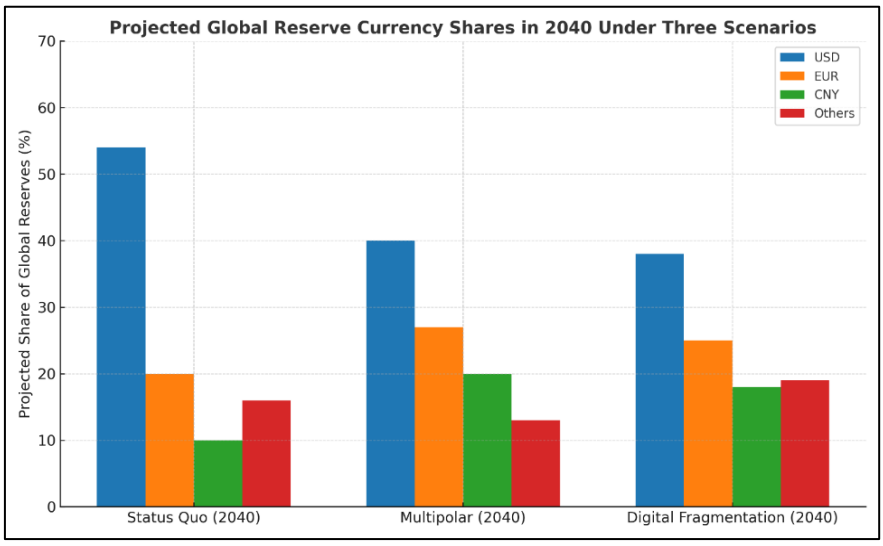

Figure 4: This figure depicts the estimated proportion of reserve currencies in the world by 2040 in three hypothetical scenarios: Status Quo, Multipolar and Digital Fragmentation. In the Status Quo scenario, the U.S. dollar continues to dominate world reserves; in the Multipolar and Digital Fragmentation scenarios, however, the euro, Chinese Yuan and other currencies gain more share of the world reserves. These forecasts indicate that the international monetary system may change to be more diversified and technologically integrated. Source: Aizenman *et al.*, (2022); BIS (2023).

The following two decades of the global monetary system will depend on the geopolitical stability, the efficiency of the institutions, as well as the rate of adoption of new technology. Three scenarios are outlined of the global reserve-currency shares by 2040. In the present scenario, the dollar remains in the lead taking approximately 54 percent of the share, and euro and Yuan get relatively small gains. With the multipolar scenario, the shares of the three major currencies are extended with deeper integration of the Eurozone and a more active Yuan. With central bank digital currencies and regional payment systems becoming a common use in the digital- fragmentation scenario, the probability of one currency dominating is lower, and other regional or commodity-backed assets become more significant. This study indicates that dollar leadership can still remain, but the 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 stable coins, based on the forecasts of IMF (2024), BIS (2023), (Broby, 2023; Aizenman *et al.,* (2022).

The world financial system has experienced a significant change due to the creation of central bank digital currencies or CBDCs. These alterations have implications to each region and influence the foreign-reserve allocation 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 Society for Worldwide Interbank Financial Telecommunication (SWIFT) and correspondent banking networks (Bank for International Settlement [BIS], 2023; Auer and Boehme, 2020).According to a recent CBDC adoption survey conducted by the BIS (2023), CBDCs are able to 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.

Brobly (2023) states that it will be possible to provide direct fiscal interventions, such as direct stimulus payments, and strengthen anti-money-laundering efforts due to the traceability of the CBDC transactions. But the same traceability is also something that brings up the issue of privacy and surveillance, particularly in authoritarian governments.

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. The currency has the potential to be more efficient and appealing with a more powerful digital infrastructure to manage international loans, trade invoices, and foreign-reserve management. According to Kiff et al. (2020), digital currencies can become the so-called trust amplifiers under the condition of strong institutions and clear regulatory frameworks. The European Central Bank and the People's Bank of China are also investing in the development of CBDC to make them more competitive globally.

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

Central Bank Digital Currencies (CBDCs) are being used to reduce the dependence on the U.S. dollar and strengthen networks like SWIFT by China and other nations. Connecting the Cross-border Interbank Payment System (CIPS) of China with its e-CNY, it is possible to 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, 2024, 2023 survey). In the absence of international coordination, CBDDCs can also be counterproductive to their own usefulness as a global reserve currency.

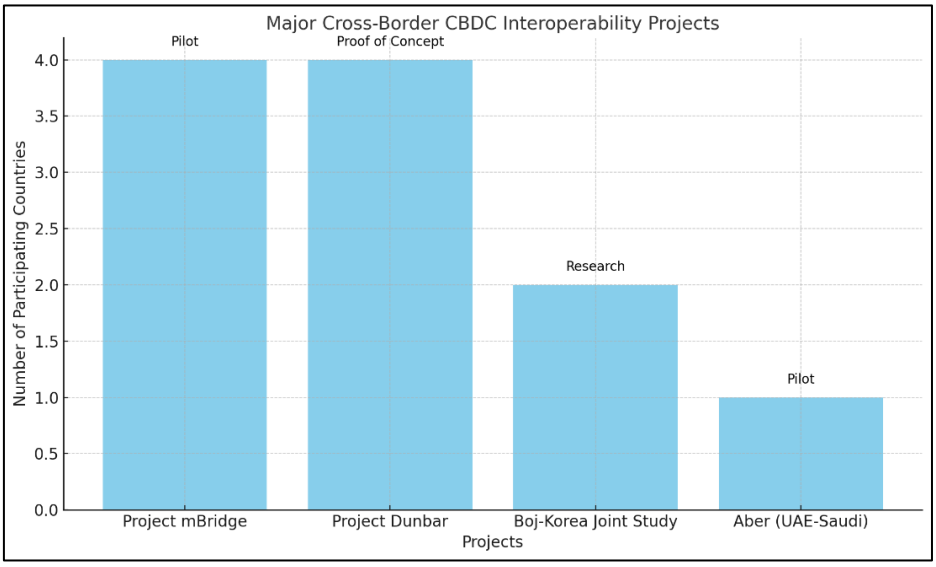

Figure 5: Represents key Cross-border CBDC Interoperability Projects
Source: BIS (2023); BIS–MAS (2022).

Figure 5: This figure illustrates four large cross-border CBDC interoperability projects, namely: 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. Both of them require two to four nations, highlighting the increasing global trends of joint digital-currency infrastructure.

6. Uncertainty in the Law and Cyber security:

CBDCs result in the introduction of more complex regulation, privacy of data, legal jurisdiction, and security of platforms. Central banks, as providers of digital infrastructures, face a higher risk of cyber-attack and technical-failure. Another factor that leads to many central banks being skeptical about adopting CBDCs is the legal uncertainty around settlement finality, cross-border enforcement and the rights of users to their data, particularly in jurisdictions with weaker rule of law ((Broby, 2023; Barontini 2019; Hoffmann 2022).

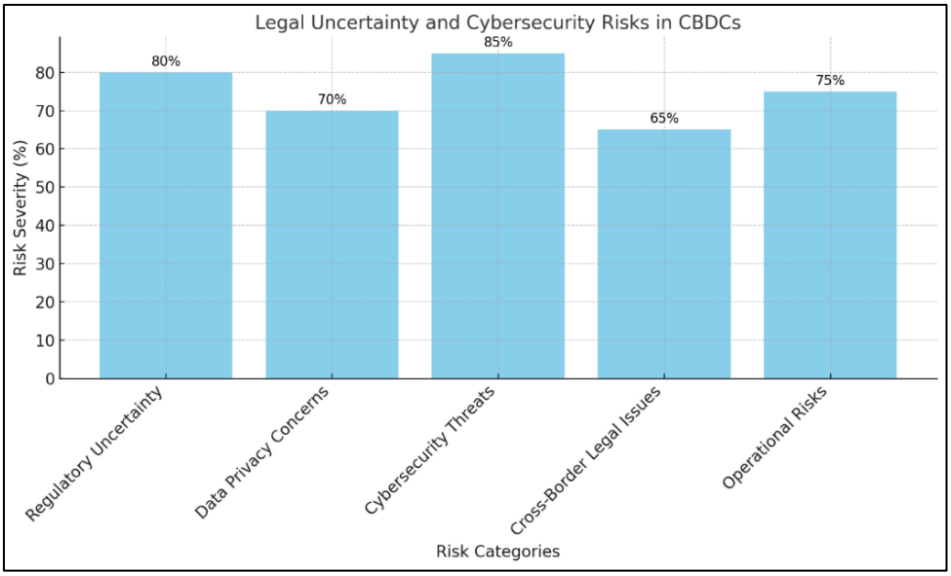

Figure 6: Central Bank Concerns Over Key CBDC Risk Categories
Source:(BIS, 2023; IMF, 2024). Central Bank Digital Currency (CBDC) Information Security and Operational Risks to Ce ntral Banks; Cyber Resilience of the Central Bank Digital Currency Ecosystem.

Figure 6: This graph illustrates the perceived seriousness of legal and cyber-security threats associated with CBDCs. Cyber-security 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 commerce. Despite its advanced technology, cautions over governmental monitoring, financial limitations, and limited adaptability this limit the globe adoption. Its potential as a reserve currency is still limited by the lack of access to the market and transparent governance (Broby, 2023).

8. Digital Euro: The Problems of Institutional Fragmentation:

Institutional fragmentation of 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 arguments about data protection, bank disintermediation, and the legal framework do not advance the implementation (European Central Bank [ECB], 2023; Siklos, 2024). Such limitations prevent the full implementation of CBDC innovation to strengthen the position of the euro as a reserve currency.

9. Global Reserves Composition of Global Reserves:

CBDCs will not quickly replace traditional reserve currencies; however, the further development of them will alter the way reserves are shared globally. They present major benefits in the changing world of internationalcurrencies,
including programmability, expanded availability, and increased digital resilience. (Iancu *et al.,* 2022; BIS, 2023). This is a change thatsignifies the increasing demand of global collaboration, uniform technical specifications, and unified management.

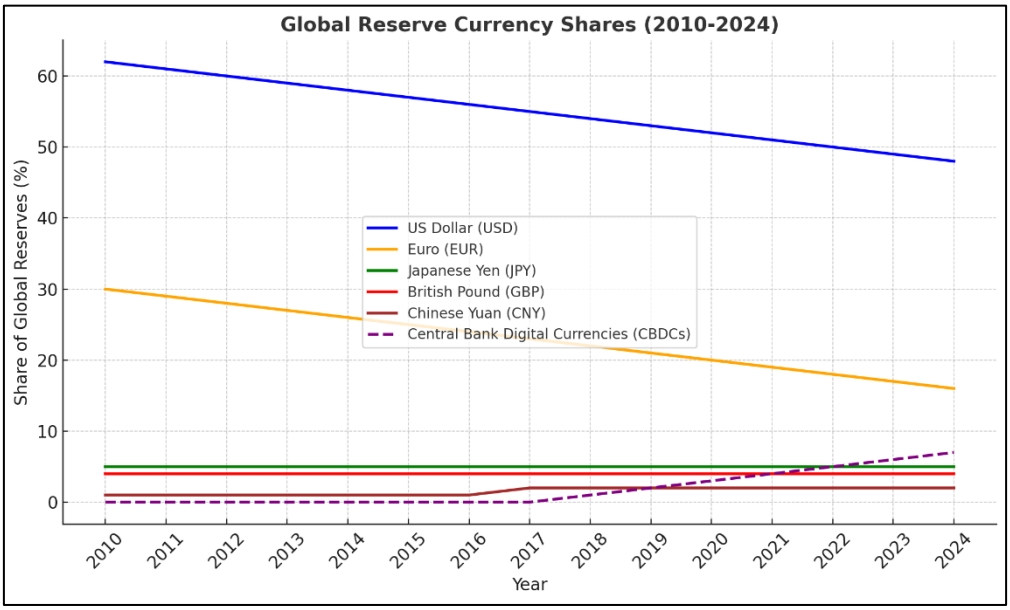

Figure 7: The composition of Global Reserve Currency (2010-2024) Trends
Source: BIS (2023); (Broby, 2023). ECB (2023)

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)

Feature	e-CNY (China)	Digital Euro (European Union)
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: Date were collected from BIS (2023); ECB (2023); PBoC (2022); Kiff *et al.*, (2020); Auer *et al.*, (2022).

Table 3: provides a comparison between the major characteristics of e-CNY in China and the Digital Euro in the EU and identifies differences in 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 the Central Bank Digital Currencies (CBDCs) do not have a single path to follow, but the way it is developed and the policy objectives it is intended to achieve is paramount. The electronic Yuan in China is limited more by the legal regulations and internal accord procedures in the EU, but the e-CNY embodies the top-down, geopolitically oriented strategy of China. Such attempts 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 are important in defining whether they will continue to be used locally or they will turn into reliable components of global reserve portfolios as global usage increases.

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 accurately looked at. These are the Japanese yen, the British pound sterling, the Swiss franc, and the Chinese Yuan (renminbi) that 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; Broby, 2023).

The Chinese Yuan is now a constituent of the IMF Special drawing reserves 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 their 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 the Southeast Asia, Latin America and Sub-Saharan Africa tightly control their currencies or tie 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; Broby, 2023).

The way in which new reserve currencies and the rise of developing economies are interplaying with the old financial giants is a 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 becoming more and more 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 have a better idea about 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 drift to alternative currencies, especially the Chinese Yuan, is evidence of minor yet significant diversification of reserve assets. This trend is ongoing, although euro and US dollar are still dominant (IMF COFER, 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 COFER (2024).

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 value has stayed very constant, although the Japanese yen and the British pound have also seen some small changes. The number 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 smart financial diplomacy are almost certainly to blame 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 and popular in many countries throughout the world. People are always trying to make the monetary system better, which is a good thing.

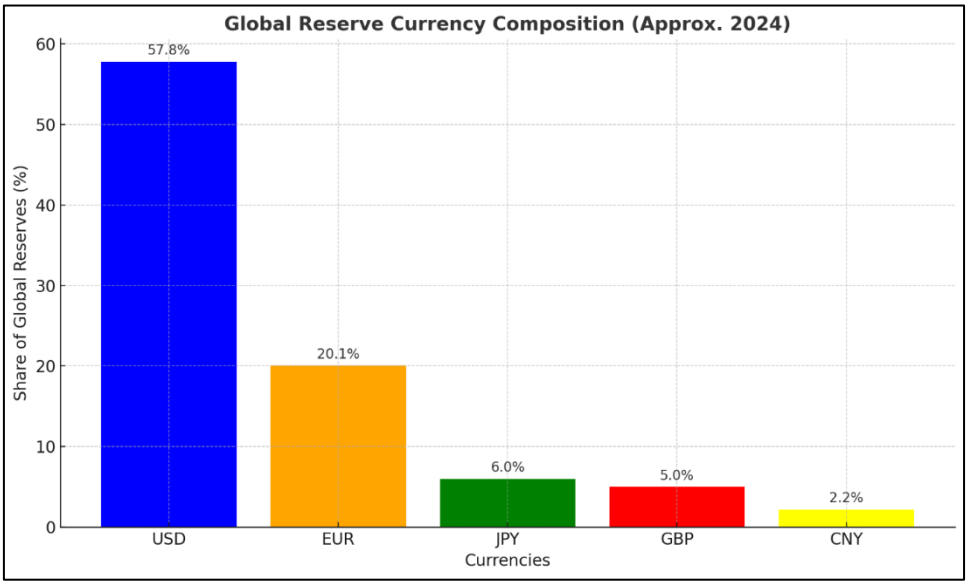

Figure 8: Distribution of the Global Reserve Currencies (Estimated 2024)
Source: IMF COFER (2024), BIS (2023).

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 illustrated 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 in the inclusion of the SDR in 2016, which indicated that the Yuan was now 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 more and more constitutive of strategies to diversify the reserve resources. The monetary sovereignty of individual regions and the need to decrease the dependence on the U.S. dollar or the euro is experimented with regional experiments using currency pooling, alternative payment networks, and even localized digital infrastructure. Sources: Joshua 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 in ensuring that the world is no longer reliant on the U.S. dollar. There are now talks of a BRICS reserve currency or even a common settlement system that may be backed by the member currencies, and facilitated by interoperable CBDC networks (Broby, 2023).

China and Russia have been headed towards settling trade in their local currencies of Yuan and ruble, and India and Brazil are considering local currencies to make purchases. 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-codes 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 on settlements in lieu of dollar conversion.

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

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

The Pan-African Payment and Settlement System (PAPSS) is consistent with the objective of AfCFTA in reducing the use of dollars in trade among African countries. Studies of multilateral clearing systems are being conducted in Nigeria, Ghana, Kenya, and elsewhere, and some of them consider digital currencies issued by central banks including the eNaira, contingent 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 (Broby, 2023). This addresses the long-term problems of currency imbalance, exorbitant transfer costs, and dollar shortages. Such programs depict 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 plans are a grass-root restructuring of the world monetary system. Developing countries are no longer inactive receivers of U.S and EU policy spillovers. Regional blocs are increasing their capacity to administer reserves without depending on the central bank by establishing payment systems, swap lines, and possible CBDC corridors, which fit their region. Although they are not yet fully as reserve currencies, they are an indication of a strategic step toward local monetary sovereignty, which is a fundamental aspect of the growing 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); cross-border digital corridors	Examine the functionality of Central Bank Digital Currencies and alternative payment solution.	Increasing the interest of doing oil transactions without using the U.S. dollar	Increasing demand for oil transactions denominated in currencies other than the dollar	UAE, Saudi Arabia

Sources: BIS (2023); (Broby, 2023). Aizenman *et al.*, (2022); & Subacchi (2020).

Table 5: Shows the new regional alliances are also actively discussing real alternatives to the dollar-based institutions. These programs have not totally gotten eliminated of traditional reserves, but they are changing how money is used, notably in foreign trade and managing liquidity. The United States 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 position restructuring in the Global South.

Gold and other commodities as reserve assets in a world without the dollar:

The other important point about global reserve diversification that is not given much attention to 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. Because of currency risk and systemic instability, central banks, particularly in developing nations, have been buying an increasing amount of gold. This change is conditioned by the broadening of political differences and a gradual loss of confidence in traditional fiat-based banking systems. According to recent statistics provided by the Bank for International Settlements (BIS) and the International Monetary Fund (IMF), gold purchases by the public-sector in 2022 and 2023 were higher than the levels of the past 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 issues, inflation concerns, and the application of money as a geopolitical instrument. BIS (2023); IMF (2023); Eichengreen (2011).

Gold continues to be an attractive investment because it has intrinsic value, and it has a long history of being a reliable store of value. Its uncommon qualities make it possible to keep and even gain value in the changing of the monetary systems. The investment focus of sovereign wealth funds and state-owned enterprises is shifting towards commodity-based investments and physical resources like energy and rare earths. These steps show the future of the 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 following table describes the changing policies of various reserve assets: traditional fiat currencies, gold, commodities, and sovereign wealth funds. It outlines the main characteristics, recent tendencies (2022-2024), and benefits of the strategy. It compares the diversification of the major central banks and sovereigns, who are moving outside of the classic fiat assets in reaction to economic uncertainty, geopolitical changes, and long-term fiscal priorities.

Table 6: Comparative Overview Fiat vs. 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: This table 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 (Weiss, 2025; IMF, 2024), there is an apparent strategic shift in favor of non-fiat assets. Gold and commodities, which are geopolitically neutral, have long records, and hedge against inflation and sanctions (Aizenman *et al.*, 2022; Global X ETFs 2025) are becoming popular again. At the same time, sovereign wealth funds are developing diversified portfolios comprising equities, infrastructure and strategic commodities to enhance long-term fiscal resilience (Western Asset 2025). This change is indicative of a more multi-asset strategy by central banks and regulators, to improve economic security, lessen reliance on a single type of asset, and evolve in a discontinuous, multi-polar financial framework. This trend is an indication of a slow shift towards decentralized monetary control to a more resilient decentralized reserve structure (IMF COFER 2024).

LITERATURE REVIEW

Critical Analysis of the literature, Theoretical Approaches and empirical research on the subject.

The discussion of world reserve currencies has changed over recent decades due to the shift in economic policy, technology, and redefinition of geopolitical shifts. It is a 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. Eichengreen (2019) notes that the

historical dominance of the dollar is slowly wearing off as the global trade patterns are changing, new financial centers are being established, and central banks are engaging in diversification. 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, which 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 gained increasing attention among academicians and policy makers as a potential challenge to the global dollar supremacy. According to scholars like Subacchi (2020) & (Broby, 2023).there is a paradox in the fact that China is keen on internationalizing the Yuan, but maintains tight capital controls and a controlled exchange rate. These policies contribute to export competitiveness but restrict the level of foreign investor confidence and full convertibility. The changing institutional structure in China in which the state continues to play a significant role in monetary and financial decision-making poses 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 to the active financial diplomacy of China and the overall trend of the transition to a multipolar reserve system.

Recent studies discuss the increasing role of digital currencies and other assets in the transformation of the reserves structure of the world. Central Bank Digital Currencies (CBDCs) and blockchain-based settlements are also becoming a topic of growing interest among scholars and policymakers as potentially disruptive to the international system based on the dollar, leading to the redistribution of monetary power, the improvement of cross-border efficiency, and the challenge of the dominant position of the dollar (Kiff *et al.*, 2020; BIS, 2023). The growing literature focuses on the interaction of institutional credibility, technological innovation and the geopolitical strategy in defining the changing terrain of reserve currencies.

Together, the literature shows that the world is moving towards an international monetary order, which is no longer unipolar and dollar-based, but a place characterized by strategic diversification and institutional experimentation. 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 co-existence of assets fiat, digital, and commodity-based of 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: This Table **s**ummaries 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 towards a more diversified, and possibly multipolar one. The analytical foundations of currency dominance are foundational theories of hegemonic stability (Kindleberger 1981; Cohen 2015), although empirical research (Eichengreen 2019; McNamara 2015; Feldstein 2017) introduces structural and political limitations on the dollar and the euro. Recent studies by the BIS (2023) and Kiff et al. (2020) show that digital currencies and CBDC innovations act as accelerating factors to systemic change in global reserves, whereas emerging literature by Subacchi (2020) &

(Broby, 2023).emphasizes the cautious approach of China towards the internationalization of the Yuan.

Theoretical and Conceptual Framework

The study is based on a combination of theories to explain how the reserve currencies are formed, sustained, and developed in the international monetary system. The framework combines the knowledge in Hegemonic Stability Theory, Network Theory, Institutionalism, and the new theory of financial depolarization to offer a multidimensional perspective of monetary power and transition.

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). Although the emerging economies are expanding, these mechanisms contribute to the centrality of the dollar in global finance.

These structures are further elaborated by institutionalism, which highlights the primary importance of transparent, rule-based governance in the form of independent central banks, legal integrity and open capital markets in the development and maintenance of confidence in a reserve currency. As an example, the euro enjoys the advantage of an institutional framework that is based on democratic leadership, but the 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 transparency in regulations, and controlled exchange rate regime in China (Broby, 2023).

The paper, which is based on the classical and institutional theories, uses the notion of financial depolarization to describe how the power of reserves-currencies circulates among various actors rather than being substituted by one hegemon. Depolarization is accelerated by systemic shocks, technological advances such as digital currencies, and proactive de-dollarization policies of the states that desire to have more strategic freedom (Tooze 2022; Aizenman et al. 2023). These aspects transform the world reserves structure and question the hegemony of the dollar.

The combined framework acknowledges that the reserve currency status sustainability does not only rely on the economic size, but also on the institutional capacity, the technological flexibility, and the geopolitical strategic location. These forces interact and drive and restrain the process of converting to a more multipolar monetary order. This combined approach provides a sound analytical model to explain the complex and asymmetrical development of global currency relations. This paper envisions a future of distributed but interdependent monetary centers, where multiple major currencies are coexisting regionally and globally, where several large currencies are living in a strong but decentralized balance of world finance.

Network Effects and the Transition to Historical Currency:

Network effects are vital to understand how some currencies become and remain dominant as the global reserves. Cohen (2015) argues that once a currency gains initial acceptance in the international trade and finance, it becomes self-reinforcing, which will become stronger as time goes on. Such cycle causes lock-in effects, because global companies and financial institutions have a high switching cost in terms of alternative currencies. Therefore, network externalities create a form of incumbency, which makes switching to competing currencies difficult and expensive. The gradual transition of the British pound into 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.

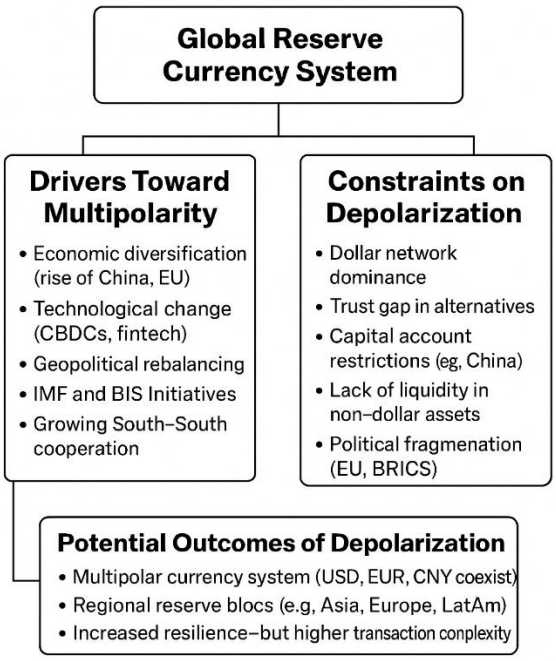

Figure 9: Drivers, Constraints and Potential Outcomes of Global Reserve Currency System Changes

Figure 9: Figure 9 reveals the dynamics that influence the development of the global reserve currency system. The left panel singles out drivers that are oriented to multipolarity, such as the diversification of the Chinese economy and the economic diversification of the EU, technological innovations such as CBDCs and fintech, geopolitical rebalancing, and multilateral initiatives by institutions like the IMF and 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 blocs like the EU and the BRICS (Cohen 2015; (Broby, 2023).; Subacchi 2020). Collectively, these conflicting forces determine the possible results of depolarization, indicating the transition to a multipolar monetary system in which fiat, digital, and commodity-based reserve resources would co-exist in a more robust but disintegrated global order (Tooze 2022; Aizenman *et al.*, 2023).

Using historical comparisons, the theoretical approach offers important critical insights and helps to understand complicated dynamics more easily. Since the early 1900s, the U.S. dollar is 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 as time passes by because of 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 Comparative Lens of the Currency Transition in History: Historically, there have been changes of currencies including the shift of the British pound sterling to the U.S. dollar as the reserve currency of the world. Eichengreen and Flandreau (2012) and Bordo *et al.,* (2019) discovered that such transitions are slow, and the period of overlap between old and new reserve currencies was long.

The British pound Sterling was the dominant currency in the world in the late 1800s and early 1900s, and this fact highlighted Britain as the most important trading nation in the world. The capital markets of London were strong and open and the pound was sound and supported by gold. It changed the world power relations after World War I: with the growth of the United States economy and the decline of the British economy and political influence. The Bretton Woods Agreement institutionalized and further consolidated the global dominance of the dollar a trend that had already gained momentum in the two World Wars and reached its peak in the post-war era.

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.

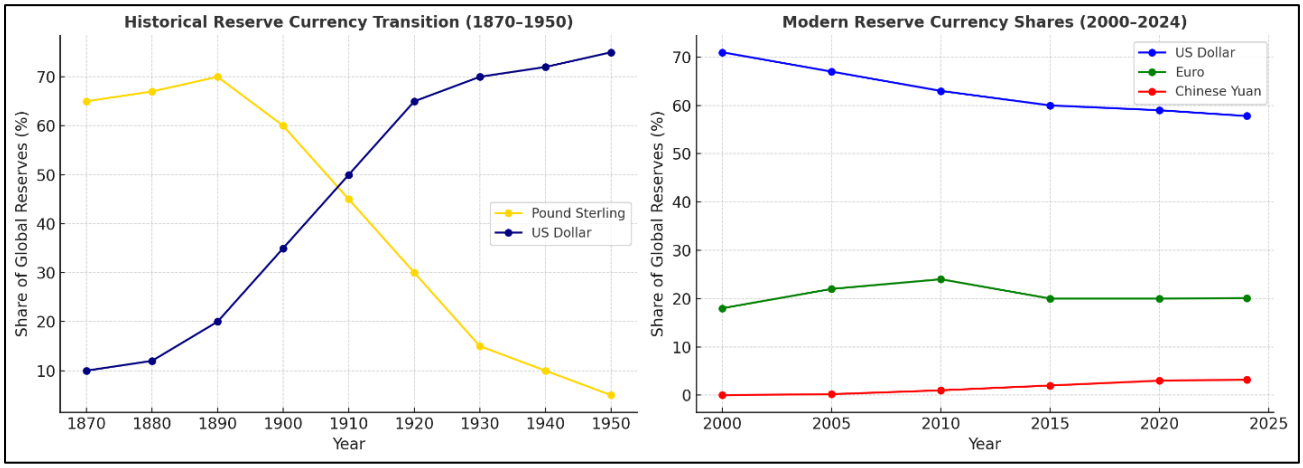

Figure 10 & 11: Development of Global Reserve Currency Dominance in Two Periods.

Figure 10& 11: The left-hand side (1870 – 1950) shows the shift towards the U.S. dollar as the geopolitical and economic power in the aftermath of the two World Wars and the creation of Bretton Woods caused a shift in the reserve currency, which was the British pound (Eichengreen 2011; Eichengreen and Flandreau 2012; Bordo et al. 2019).The right panel (2000 – 2024) displays the contemporary reserve-currency environment where the dollar is still the leader, but gradually losing market share. The euro has risen in the early 2000s but has stagnated, whereas the Chinese Yuan has risen slightly since its inclusion in the IMF SDR basket in 2016 (IMF COFER 2024; BIS 2024; Broby, 2023).

The figure represents the historical experience and current signs of a slow transition to a more diversified, multipolar system of reserve currencies.

The only distinction today is the absence of a clear successor. The dollar has taken over the pound as the only global reserve currency, but a multipolar system which could also include digital currencies could be in place. This transformation is less radical and decisive, but the fundamental concepts of network effects, institutional confidence, and geopolitical influence are retained (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 and 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 a lot of credible sources: the reports of international organizations like IMF (2024), World Bank (2023), ECB (2023), and BIS (2024) give the background information. Peer-reviewed studies and working papers are added to these to have a full picture, evidence-based (Eichengreen & Flandreau, 2012; Kiff *et al.*, 2020).

The study uses triangulation method that cross-validates institutional data with peer-reviewed sources and analytical commentaries of prominent scholars to establish the reliability and academic integrity of the findings. The process also assists in confirming emergent patterns, reducing interpretive bias, and enhancing the validity of the findings, as well as limitations of secondary data, including time delays in institutional reporting and some inconsistencies in data across sources

were recognized and managed in the comparative analysis.

The period of interest is between 2000 and 2025, which includes the major events of the 2008 global financial crisis, Eurozone debt crisis, the inclusion of China in the SDR basket, the COVID-19 pandemic, and the faster growth of digital money (Tooze, 2022; IMF, 2024; BIS, 2024).

It is necessary to analyze the cases comparatively. This analysis compares the U.S. dollar, euro, and Chinese Yuan according to the criteria based on previous studies: economic size, liquidity, institutional trust, currency convertibility, geopolitical leverage, and digital innovation preparedness (Kindleberger, 1981; Cohen, 2015; Eichengreen, 2019; Prasad, 2021). These variables are explored using cross-border settlement pattern, shares of foreign exchange transaction and reserve accumulation patterns (IMF COFER, 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: The Bank for International Settlement (BIS) payment reports, the International Monetary Fund (IMF) Currency Composition of Official Foreign Exchange Reserves (COFER) database, and the European Central Bank (ECB) statistics are used by the research to keep track of how the utilization of various currencies and central bank activities evolve over time (IMF, 2024; BIS, 2024; ECB, 2023; World Bank, 2023). It compares the pattern in trade payments that have been made in the Yuan, loans extended in euros, and the percentage of dollars around the world to bring out the change in reserve preferences that are taking place in the real world (Aizenman & Lee, 2007; Prasad, 2021).

The trends in the trade settlements in the form of Yuan, lending in the form of euros and the global share in the dollar are compared over time to highlight the shift in the preference of reserves that actually takes place in the real world (IMF COFER, 2024; BIS, 2024; Eichengreen & Flandreau, 2012). This approach provides an objective assessment of the fact that the global financial system evolves or matures into more diversified, multipolar system or is getting closer to a post-dollar era. This is done through the combination of theoretical knowledge with real trends (Cohen, 2015; Tooze, 2021).

It is imperative to note that this study does not feature any direct input of policy makers, currency strategists or financial professionals. However, it applies 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 in a great number of locations. Some of these sources include the International Monetary Fund, the Bank for International Settlement, the European Central Bank and the studies conducted by universities. All the sources were employed to compile the data.

The absence of original qualitative data limits the interpretive richness of the study particularly in the sense of the realization of the political factors, legal limitations and institutional attitudes which influence decision-making with regard to the management of reserve currency and the implementation of CBDC. According to Prasad (2021); Tooze (2021); and BIS (2023), the transition of the financial system to multipolarity requires the creation of macroeconomic underpinnings, the attitudes of elites, the management of strategic risks, and shifting policy philosophies.

Perhaps in the future, researchers may find semi-structured interviews with central bank officials, International Monetary Fund consultants, or task force leaders of digital currencies useful. This would enable the gaining of useful information regarding the decision-making processes involved in the practical implementation of reserve currencies (BIS, 2024; ECB, 2023). Similarly, survey data on reserve managers, sovereign wealth funds, and development finance organizations could be used to further develop the structural analysis by offering attitude and behavioral insights. This would be analogous to the former one.

Interviews with the officials of the European Central Bank, the People's Bank of China, and smaller central banks that are participating in currency swaps or CBDC pilots (such as Nigeria, Argentina, and Brazil)

would yield a better understanding of the following. The interviews would illuminate on:

1. Internal arguments concerning diversification of reserves.
2. Digital currency innovation risks and incentives.
3. Perception of risk in U.S. financial dominance and sanctions.

These voices will be useful to add an empirical background to the study and create the alignment between academic perspectives and policy realities, which will make the article more applicable to global financial institutions (Aizenman *et al.*, 2022; Prasad, 2021).

Quantitative Statistical Analysis of Reserve Currency Drivers:

In this research, the authors employed a statistical specification to test the relationship between important structural variables and the share of a currency in the world foreign exchange reserves, alongside qualitative and historical data (Eichengreen, 2019; IMF COFER, 2024; BIS, 2024). This provides us a means of testing the hypotheses we discussed earlier through the use of data.

Model Overview

We used panel data between 2000 and 2024 comprising of the three main reserve currencies, the United States dollar (USD), the euro (EUR), and the Chinese Yuan (CNY). The dependent variable is a share of total global reserves of each currency (IMF COFER, 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: These variables are currency convertibility (IMF, 2024); the openness of the capital account, measured with the Chinn-Ito KAOPEN index (Chinn & Ito, 2023); institutional trust, measured with the help of the indicators of governance and transparency (World Bank, 2023; Transparency International, 2023); the size of the sovereign bond market relative to the GDP (BIS, 2023; ECB, 2023); and the level of digital currency development (CBDC) (BIS, 2023; Kiff *et al.*, 2020). The combination of these variables offers a systematic design of assessment of the structural and institutional underpinnings of reserve currency status.

Data Modeling and Empirical Analysis.

Objective

This article provides an empirical investigation in to the factors which determine reserve currency status. This part is an addition to the qualitative and theoretical findings found in the study. The aim of the research is to find out whether the distribution of global reserves between the US dollar, the euro, and the Chinese Yuan can be explained using the macroeconomic and institutional factors, including currency convertibility, market liquidity, political stability, and technological innovation.

Hypotheses

H1: Institutional trust, the openness of capital accounts, and currency convertibility have a positive relationship with the share of a currency in the world foreign exchange reserves.

H2: EU bond market development and innovation of digital currency (e.g., digital euro) positively affect the reserve share of the euro.

H3: Capital controls, lack of transparency and strategic depreciation policies limit the reserve share of the Yuan.

Data and Variables

This paper relies on a panel data that spans between 2000 and 2024. It is concentrated on the three primary international reserve currencies, the United States Dollar (USD), the Euro (EUR), and the Chinese Yuan (CNY). This is subsequently called the three primary reserve currencies. The most important dependent variable is the reserve share of each currency, the amount of total foreign exchange reserves in the world that it has. This information is available to us through the International Monetary Fund (IMF), in the Currency Composition of Official Foreign-Exchange Reserves (COFER) database.

In order to analyze the motivation of reserve currency distribution, we have chosen a list of explanatory variables that have continually reoccurred in the international finance and monetary economics literature. These independent variables encompass macro-financial properties and institutional aspects that determine the acceptance and the duration of life of a currency as a reserve asset. The variables are quantified

by means of standardized indicators of globally recognized institutions. (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

Table 10: This table gives the variables that will be employed in the empirical study of reserve-currency determinants. The dependent variable is the Reserve Share that is defined as the percentage of the global foreign-exchange reserves in each currency (IMF COFER, 2024). Examples of independent variables are major structural and institutional factors that affect the adoption of reserve currency. Sources (BIS, 2024; Kiff *et al.*, 2020).

The development of central bank digital currency (CBDC), which denotes the policy or pilot implementation phase (BIS, 2024; Kiff *et al.*, 2020). All these factors have been selected to capture structural as well as policy-driven factors of currency strength. The addition of capital account openness, convertibility, and institutional trust brings up what is required to make a currency reliable. Bond-market depth and CBCD preparedness are fluid factors in the changing nature of digital finance, which can increase the attractiveness of a currency. The model, therefore, provides a holistic perspective of the drivers of global reserve allocation, a combination of conventional indicators with technology and geopolitical measures.

Case Studies of countries on reserve currency diversification and adoption of CBDC:

It is necessary to examine national responses to determine how countries react to the depolarization of reserve currencies and the role of CBDCs in this process. Most of the emerging and middle-level economies are updating their reserve management policies by diversifying their currency reserves and by engaging in pilot projects in digital currencies. The role of major powers such as the United States, the European Union, and China in determining the organization and transformation of world reserves is huge. This section examines the way different countries are coping with and contributing to changes in the global currency environment. (Iancu *et al.,* 2022; BIS, 2022)

Russia: Sanctions Pressure Accelerates De-dollarization:

This example of Russia is a perfect example of how geopolitical shocks can speed up the process of reserve diversification. Following the 2022 invasion of Ukraine, which was sanctioned by the West, the Central Bank of Russia reduced its reserves in U.S. dollars drastically. It shifted its reserves to gold, the euro, and the Chinese Yuan (CNY) (Carstens, 2024; Aizenman *et al.*, 2022; IMF COFER, 2024). As of June 30, 2021, the Chinese Yuan comprised approximately 13.1 of the total foreign exchange reserves of Russia, and other sources indicate that the figure remained approximately 13 all of 2022 After the 2022 invasion of Ukraine and subsequent sanctions, the Central Bank of Russia brought its U.S. dollar reserves to a minimum and has been indicating a shift to gold and non-dollar reserves diversification (European Central Bank, 2022; CEPR, 2024).

Russia has also increased the use of Yuan in energy transactions and improved relations with the Cross-border Interbank Payment System (CIPS) of China. This shift is not merely a response to sanctions but a more general shift towards the shift towards dollar-based infrastructure. According to Subacchi (2020), these shifts are indicators of not only the fragmentation of the system but also the intention of the marginalized economies to reduce reliance on the Western-dominated financial mechanisms.

Argentina: Bilateral Swap Agreement and Yuan Settlement:

Argentina demonstrates how a country can restrict the usage of currency through diversification. With a long-term history of inflation, declining dollar reserves and limited access to global capital markets, Argentina sought bilateral swap agreements with the People's Bank of China. Beginning in 2023, e.g. Central Bank of Nigeria, PBoC, BRICS Summit). Argentina started settling a limited number of import transactions

in Chinese Yuan, which will help decrease its reliance on the U.S. dollar in its critical trade operations.

The fact that Argentina is a member of the Belt and Road Initiative (BRI) by China and the fact that Beijing continues to pressurize other countries to go global with the Yuan through the swap lines and trade financing systems strengthens this trend. Despite the fact that the Yuan remains not fully convertible and deep liquid, the experience of Argentina highlights the increased popularity of alternative currency arrangements amid macroeconomic stress among developing economies (Aizenman *et al.,* 2022; Prasad, 2021; IMF COFER, 2024).

Nigeria: CBDC Innovation and Regional Monetary Strategy:

Nigeria is an example of a non-reserve-currency country that can become the digital-money innovator. In 2021, the Central Bank of Nigeria became the first African country and the second globally after the Bahamas, releasing a central bank digital currency (CBDC), the eNaira, which is intended to run in parallel with the physical naira but allows transactions that are faster and more secure, as well as has strategic potential to promote financial inclusion as well as improving the efficiency of the payment infrastructure in Nigeria (BIS, 2023; IMF, 2024; Kiff *et al.,* 2020).

Despite the fact that the adoption is still low, the initiative of Nigeria shows that developing nations have the broader intention to establish their monetary sovereignty on a larger scale with the help of digital tools. According to the BIS (2024), central bank digital currencies (CBDCs) are now regarded by many countries as instruments of increasing independence on the traditional reserve currencies and the Western-dominated financial plumbing like the SWIFT network. Nigeria is another country interested in participating in BRICS+ efforts to create alternative cross-border payment systems (Tooze, 2022; Aizenman *et al.,* 2023), in line with the worldwide quest to find monetary multipolarity.

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

A founding member of BRICS, Brazil has been considering a common reserve or settlement currency of the bloc, which is an indication of its dissatisfaction with dollar dominance and its promotion of a more multipolar financial system (Aizenman *et al.,* 2022; Prasad, 2021). Its collaboration with China in currency swaps and its involvement in digital projects like mBridge show that it is receptive to other financial solutions.

These changes indicate that diversification of reserves is in process with particular focus on those countries having economic or geopolitical limitations. E-currencies domestically and internationally, such as the eNaira in Nigeria and the e-CNY in China, are observed as a way of enhancing monetary independence and complementing alternative payment systems.

Regardless of the current difficulties, including capital controls, lack of convertibility, and digital infrastructure gaps, the trends show the proactive transition to a multipolar, digitally integrated reserve system (BIS, 2024; Prasad, 2021; Eichengreen, 2019).

The table below summarizes the major reserve diversification and CBDC plans implemented by the chosen countries, their reasons, and the overall implications on the global 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: This shows how emerging economies, such as Russia, Argentina, Nigeria, and Brazil, are diversifying their reserves and looking at digital-currency options in the face of geopolitical, economic, and financial strain (Aizenman *et al.*, 2023; BIS, 2024; Prasad, 2021). All these moves show that the diversification of reserves and experimenting with digital currencies are not just ideas but are already on the way to a more multipolar and digital monetary system of the world (Carstens, 2024; IMF COFER, 2024).

The following table, provided in the Analysis and Discussion section, shows how geopolitical shocks, structural imbalances, and strategic goals are forcing states to diversify their reserves. New bilateral swap agreements, CBDC pilots, and regional digital currency projects support the claim made in the paper that depolarization is already going on at the national level. These changes are a paradigm shift in international monetary coordination and have indicators that this shift is taking place.

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. Euro and Chinese Yuan have become major substitutes to 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
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)

Table 12: This compares the institutional and economic underlying 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 not very strong and restricted by fiscal fragmentation. As it is expanding, the Yuan remains limited by its limited convertibility and institutional opaqueness, although digital currencies are being developed (IMF, 2024; BIS, 2024; Prasad, 2021).

The Strengths and the continued challenges of the Euro:

The euro is the most stable alternative when compared to the US dollar. The EU enjoys a big integrated economy, powerful institutions like the European central bank and extensive financial markets. The euro is also an important trading finance, lending, and bond issue currency in Europe, North Africa, and parts of Asia (ECB, 2023).

The political instability in the Euro zone compromises the ability of the euro to be a complete substitute of 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 compromised the belief in the long-term stability of the euro (Feldstein, 2017). Even though the euro has a share of about approximately 20%" and "59%" for the U.S. dollar to reflect IMF COFER 2024. (IMF COFER, 2024).

The implementation of digital euros may increase its international presence, particularly when it comes to international payments. The euro would not become a leading world currency without fiscal integration; it would continue as a second reserve currency.

The Strategic and Potential Constraints of Yuan:

China has been trying to internationalize the Yuan with bilateral currency swap, Belt and Road Initiative, and its successful incorporation in the IMF Special Drawing Rights (SDR) basket. People Bank of China has launched e-CNY and invested in other payment systems like CIPS to minimize the use of SWIFT (Subacchi, 2020).

Nevertheless, the Yuan is a small player in world reserves, with less than 4 percent of the holdings (IMF COFER, 2024). The calculated plan of China to devalue its currency to enhance competitiveness in exports compromises confidence in the Yuan as a store of value which is a key requirement of a reserve currency. Although it causes Chinese products to be

cheaper in foreign markets, foreign central banks are discouraged by capital controls, insufficient convertibility, and institutional opaqueness (Prasad, 2021). Unless significant structural changes are implemented, especially in the liberalization of financial markets and financial market stability, the Yuan will never become a reserve currency (BIS, 2024; PBoC, 2023).

Dollar Dominance and the Case of Depolarization:

U.S. dollar enjoys international attraction of safe assets, its existing status, and institutional confidence. It owes its dominance to the high liquidity of the U.S. Treasury markets and the prevalence of dollar-denominated transactions all over the world. Since the dollar is at the center of global finance, the global economy is susceptible to American policies, sanctions, and interest-rate fluctuations (Tooze, 2021).

As a result, numerous countries are diversifying their reserve currencies and the systems of trade settlement closely, particularly those in the Global South. Local-currency trade has been considered by regional blocs like BRICS, and central banks are slowly accumulating dollar exposure in the form of euros, Yuan, and gold (Aizenman *et al.*, 2023).

These developments are indicative of a multipolar monetary system and not one power shift. It is not likely that any single currency will ever entirely displace the U.S. dollar as the leading currency in the global financial system in the near future and is likely to continue being the leading currency at least until 2030. A combination of trusted currencies, euro, Yuan, and possibly digital ones will be influential globally.

Potential Future Trends and Implications.

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

Decentralization, technological progress, and an increase in the need of financial sovereignty will determine the future of the global economy. Even in the event that the dollar continues to be the primary reserve currency, a more varied and competitive ecosystem of reserve currencies will arise. These future changes are an indication of such a shift. This study examines the factors that may upset the global currency pecking order and their impacts on global banking in general (Chinn & Frankel, 2022).

System Multipolar Reserve Currency:

The appearance of digital currencies, as well as central bank digital currencies (CBDCs), and others, is endangering the old reserves. The central banks, including the European Central Bank, the People's Bank of China, and others, are increasing their efforts in carrying out their CBDC pilot projects (BIS, 2023; BIS, 2024; ECB, 2023; PBoC, 2023). These pilots are meant to enhance efficiency, reduce costs and eliminate outdated payment systems. It is possible that technological breakthroughs can facilitate direct currency transactions, which will lessen the use of the dollar in business transactions.

China is also experimenting with its electronic Yuan (e-CNY) as a cross-border currency, which can theoretically enable partners to do business without having to convert to dollars. There are still challenges to face, such as privacy-related issues, interoperability and governance. An effective digital euro would increase the visibility of the EU globally.

Disruptive Forces of Digital Currencies:

The emergence of digital currencies and central bank digital currencies (CBDCs), in particular, is threatening the traditional reserve systems. The central banks of the European Central Bank, the People Bank of China and other central banks are rushing to deploy central bank digital currency (CBDC) pilot projects (BIS, 2023; BIS, 2024). These pilots are meant to enhance efficiency, reduce costs and eliminate outdated payment systems.

Factors Affecting Policy, Trade and International Relations:

Policymakers should take measures to avoid changes in the value of the currency. Those countries that want to elevate the status of their currencies in the world must invest in convenience, legal power, and transparency. Multipolar reserve systems complicate the management of currency risk and the development of multinational portfolios by investors.

When the dollar is weak, the U.S. is deprived of leverage to impose sanctions and influence financial regulations in the world. This can strengthen the power of the region and provide developing countries with additional economic freedom. The disadvantage of having a fragmented reserve currency system is, on the other hand, that it can disrupt the integrity of the global financial system, increasing the cost of transactions, decreasing the efficiency of operations, and making the market more volatile in case of a crisis (IMF, 2024; BIS, 2024).

Under the circumstances, it is not probable that a single reserve currency will prevail in the future. The global economy is shifting towards a system where there is a wide range of currencies (notably the digital currencies) that interact differently based on their use, politics and the economy.

Multipolar Reserve Currency System Transition Risks:

The advantage of a multipolar reserve currency system is diversification and strategic agility, but structural issues are also raised by it. The increase in liquidity fragmentation is concerning. Today, the dollar has the advantage of huge, interconnected markets, such as U.S. Treasuries, which other reserves might not

(Tooze, 2021). A shift to a variety of reserve assets may make the market less deep, making crisis responses more difficult.

In the absence of a leading anchor currency, the exchange rates can be more volatile (Eichengreen, 2019). Geopolitical events, changes in policies, or market sentiment may be more readily reflected in currency prices, which adds to the uncertainty of international trade and international investment.

Another risk that can occur is a lack of coordination. Under a decentralized system, no individual party is responsible for ensuring the monetary order remains stable. It may also result in a more complicated (or even impossible) response to crises, which makes the system more vulnerable (Borio & Disyatat, 2017). The threat to the growing economies is even higher. Most of the nations depend on a single or two reserve currencies, ineffective capital markets, and are unable to handle currency fluctuation risks (Avdjiev *et al.,* 2018). Instead of decreasing instability, diversity of reserves may also increase it, and this should be considered. The establishment of strong legislative frameworks, the creation of interoperable payment technologies, and better coordination of central banks are all the steps that have to be established to allow a successful shift to a multipolar system.

Underrepresented Reserve Currencies:

Yen, Pound, and Franc: The most common reserve currencies in the international financial system are the U.S. dollar, the euro, and the Chinese Yuan. There are other currencies that are also significant to the global financial system albeit in low degrees. The currencies that have a significant reserve and played an important role in the history of the world include the Swiss franc (CHF), the British pound sterling (GBP), and the Japanese yen (JPY).

The Japanese yen is about five percent of all reserves in the world. This can be attributed to the large government bond market in Japan as well as the political stability of the country. Although Japan has long been experiencing low economic growth, it is a desirable financial center, particularly in East Asia, because of its ease of doing business and strong liquidity in the market (IMF, 2024).

The British pound has been a significant currency since the UK is a major financial center and has good laws and institutions. It is also a sound reserve currency, due to the strength of the UK legal system. Although there is uncertainty over Brexit, the pound share has not dropped below four to five percent.

In case of market turbulence, the Swiss franc is a favorite of the central banks due to its stability, low inflation rates, and safety as a financial instrument. Switzerland is also one of the most important financial centers of the world, especially in the sphere of wealth and asset management, as the banking assets of the country significantly exceed the national GDP. Even though it is not a member of the European Union, the collapse of one of the largest financial institutions in the world, Credit Suisse, in 2023, can cause systemic risks with far-reaching consequences across the European and global financial markets (IMF, 2024; BIS, 2024; Financial Times, 2023).

The scenario where a reserve analysis does not take such currencies into account is that it can overlook the diversity of hedging strategies used by central banks to regulate risk and stay afloat. Chinn and Frankel (2008) argue that these popular options can continue to offer stability buffers, even in instances where the dollar or the euro are unstable as a result of market conditions. This is an indication of the increasing multipolarity of currencies and the rising division of geopolitical authority.

Table 13: Comparative Characteristics of Secondary Reserve Currencies.

Criteria	Japanese Yen (JPY)	British Pound (GBP)	Swiss Franc (CHF)
A contribution to the reserve's 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

Sources: Data were collected from IMF (2024); BIS (2024); Financial Times; World Bank; Transparency Intl; and Chinn & Frankel (2008).

Table 13: This represents a comparative analysis of institutional and macroeconomic features of the U.S. dollar (USD), euro (EUR), and Chinese Yuan (CNY) as major reserve currencies in the world. The leading role of the U.S. dollar is held by full convertibility, high institutional confidence, open capital accounts, and globalized trade. The euro has the advantages of profound financial markets and monetary policy credibility and the disadvantages of a fractured fiscal structure and average geopolitics. Although the

Chinese Yuan has been making gains, especially in the form of its digital currency pilot (e-CNY) and trading with regional partners, the currency is still constrained by capital controls, less than complete convertibility, and reduced institutional transparency.

The results of this comparison indicate that a smaller proportion of reserves of these currencies is compared to the euro or the dollar. In spite of this, they still provide convertibility, legal protection, and macroeconomic stability. In an attempt to safeguard the value and stability of their foreign exchange reserves, many central banks, especially those of emerging and export-led economies, increase their reserves of other reserve currencies when the U.S. dollar is volatile or when geopolitical risks increase. The fact that these currencies remain in the global reserves is a testament to the fact that multipolarity is not restricted to digital technology and finances only. Long-established, stable currencies, which play a particular role in international finance, are also included in this category.

The Limitations and Future Research 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 solely depends on secondary data collected by different international organizations and academic journals. It does not use econometric modeling, forecasting, or any new methods of accumulating new data. Gopinath (2022) and Eichengreen (2019) 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 makes the used of United States dollar, the euro, and the Chinese Yuan to be the main topics. Other reserve assets that may be of interest to the subject like the Japanese yen and the British pound and SDRs are not included. Though these currencies are regarded as secondary, Chinn and Frankel (2008) opine that they play a major contribution to the global pattern of diversification and must therefore be included in the reserve currency studies.

Inaugural Reporting on CBDCs:

This paper presents the concept but lacks analysis and critical analysis. The fact that central-bank digital currencies (CBDCs) are considered a very innovative area of the work does not mean that the paper goes into the depths of major technological and governance challenges, such as interoperability, data protection, platform architecture. According to the Bank for International Settlements (BIS, 2024) and Kiff et al. (2020), these elements are essential to the adoption of CBDCs and financial integration of the global community.

Lack of Scenario Modeling or Forecasting:

Although this article offers several case studies, it lacks predictive modeling or forecasting based on scenarios to evaluate the possible future events. Consequently, we are not able to show how the reserve-currency system would adapt to macroeconomic or geopolitical events, which is a significant drawback. As stated by Aizenman *et al.*, (2023) and Gourinchas and Rey (2021), such models are needed to analyze the impact of stress events or policy changes on the reserve-currency dominance and distribution.

Limited Regional and Sectorial Lenses:

This report gives inadequate attention to the way regions, in particular Africa, Latin America, and Southeast Asia, are reacting or affecting global currency realignments. Subramanian (2015) and Avdjiev *et al.*, (2018) discovered that regional trade blocs and monetary alliances have a significant influence on reserve-asset selection and payment systems.

Inadequate Examination of Transition Risks:

This paper fails in its analysis of the risks of a transition to multiple polarities, including increased volatility, increased transaction costs, or lack of market liquidity, although it may be in support of the transition. As Tooze (2022) and Borio and Disyatat (2017) caution, currency separation may increase the crisis susceptibility of the system, which should be considered.

Policy Recommendations

This paper demonstrates that CBDCs can significantly enhance financial systems. As any effective instrument, they cannot be successful without careful design, application, and management. This should be aimed at maximizing benefits and reducing risks to financial stability, inclusion, and trust. Policy suggestions to policy makers, central banks and international organizations are provided below.

For Policymakers:

1. **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).
2. **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).).
3. **Prioritize Financial Inclusion: Make CBDCs Inclusive:** CBDCs should be designed to be

inclusive of the whole population, particularly rural, unbanked and underserved parts of the population by actively working to overcome digital connectivity, infrastructure and user-friendly barriers. Offline payment solutions and low-tech solutions are the ways to obtain offline access (IMF, 2023; BIS Innovation Hub, 2022).

4. For Central Banks:

1. **Ensure CBDCs are Universal**: Central bank digital currencies should be made universal to all citizens, particularly to the rural and underserved ones by tackling the challenges to digital access and use such as low internet connectivity, lack of digital and financial literacy, and the lack of digital infrastructure (World Bank, 2023; IMF, 2023).
2. **Increase Cyber security:** Invest in the multi-layered security frameworks, real-time threat detection and intensive incident response measures to protect against cyber-attacks (BIS, 2023).
3. **Protect Monetary and Financial Stability:** Have measures to ensure that individuals do not withdraw large amounts of money in the form of CBDC or to have different interest rates to ensure that commercial banks do not withdraw the whole system liquidity and stability (IMF Working Paper Series, 2024).

For International Organizations:

1. **Promote Global Integration:** The common rules and technical standards should be encouraged to make sure that the central bank digital currencies are compatible in operation across borders to facilitate the creation of a stable and integrated global payments system (BIS Innovation Hub, 2023; IMF, 2024).
2. **Encourage the Developing Economies to Grow:** Support the developing economies to grow safely and efficiently through the provision of technical assistance, capacity building and investment of infrastructures (World Bank Group, 2023; IMF, 2024).
3. **Track Macro-Financial Spillovers:** The consistent evaluation of the effects of the CBDC adoption on exchange rates, capital flows, and financial stability in the world should be conducted in economically interconnected areas (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 money system, in addition to outlining the challenges that 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 banking. - The Lower trade transaction costs. - In the event that disruptions occur, increased resilience.	- The Dependence on the external CBDC systems. -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.

Table 14: This 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 cyber security 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. CBDCs have the potential to reduce cross-border costs at the expense of legal and geopolitical issues (Federal Reserve Board, 2022; BIS, 2021; IMF, 2024; Atlantic Council, 2024; World Economic Forum, 2023; Cato Institute, 2023; Skadden *et al.*, 2022).

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 the threats to financial stability against efficiency gains. In the case of smaller economies and an emerging market, the focus should be on the development of infrastructure and defenses against external shocks or overreliance on foreign systems. The use of CBDCs globally would enhance efficiency, though they would have to be coordinated with caution so as not to be fragmented or create gaps in regulations. Policymakers can use this table to create and test strategies in various fields.

CONCLUSION

Summary of major Findings, Study Results, and Recommendations on Future Investigation.

The global reserve currency system is in a turnaround point. Although the U.S. dollar has been the global currency of choice, with unmatched liquidity, institutional credibility, and historical entrenchment, there are mounting challenges to it due to the geopolitics of change, the pace of technology, and the strategic objectives of the other leading economies. This paper has discussed the increasing possibility 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 huge, the European central bank is reputable and most central banks would like to diversify their reserves. However, the euro is experience long-term issues. It suffers a lack of institutional solidarity and the absence of complete fiscal integration between EU member states.

The Chinese Yuan is supported by the second-largest economy in the world and such initiatives as the Belt and Road Initiative. The future of the Yuan is however complicated. It is not as appealing as global store of value which is one of the primary functions of a reserve currency owing to its limited convertibility, opaque monetary policy and purpose to promote exports.

All in all, evidence suggests that the dollar will not be deposed in a short time. It is gradually shifting to multipolarity in the global monetary system. The major aspects of this change include regional currency blocs, increased attention to monetary sovereignty, and the rapid introduction of central bank digital currencies (CBDCs). Under this new arrangement, the U.S. dollar is likely to continue playing the central role but with equal significance to regional and digital currencies that will transact trade, payment, and reserves.

Policymakers, central banks, and international institutions must be strategic in order to proceed. In the changing world of reserve currencies, a country may be successful based not on its economic size but on institutional confidence, monetary and legal stability, as well as technological readiness. The dollar might continue to dominate in the short term, but the unquestioned dominance of the dollar is dwindling to a more pluralistic and flexible world financial system.

Way forward

Financial stakeholders in the world must find ways that are unique to their institutional capacities, regional environment, and strategic priorities to build a more robust and more inclusive reserve currency system (IMF, 2024; BIS, 2024). With increasing monetary multipolarity, collaboration rather than domination is going to shape the future of global financial governance (Eichengreen, 2019; Aizenman *et al.*, 2022).

The European Central Bank (ECB).

Must work towards accelerating the digital euro to be used across the borders and between banks. It should also increase fiscal integration in the Euro and finish the Capital Markets Union to make assets based on the euro more attractive (ECB, 2023; BIS, 2023).

People's Bank of China (PBoC).

Needs to gradually open its capital account, ensure its exchange-rate policy is more transparent, and change legal institutions to increase foreign investor confidence in the Yuan (Subacchi, 2020; Prasad, 2021; IMF, 2024).

The IMF and BIS:

The global organizations should promote interoperability of digital currencies across borders. They are also expected to provide capacity-building assistance to the developing economies and observe the macro-financial spillovers of the adoption of CBDC (Kiff et al., 2020; BIS, 2024; World Economic Forum, 2023).

For the United States of America:

The United States as the current issuer of the world leading reserve currency has a special role, however, it is not an inviolable one to retain the leading role in the rapidly changing monetary environment, and to develop a secure, inclusive digital dollar will be the

most important step toward remaining competitive in the era of sovereign digital currencies (Federal Reserve Board, 2022; Atlantic Council, 2024). Furthermore, the U.S. must be the first to set a positive example of promoting transparent and equitable international financial standards, not through the use of the dollar as a form of geopolitical weaponry, but through acting as an exemplar of rule-based multilateralism to promote common prosperity, trust, and institutional legitimacy of the international monetary system (Tooze, 2021; IMF, 2024).

Financial leaders across the globe, including the United States, should not be concerned with preventing the emergence of alternative currencies, but should be working towards creating a global monetary system that is stable, inclusive, and collaborative. Rather, it ought to be in the creation of a balanced, interoperable, and institutionally sound international monetary system that is sensitive to a multipolar world economy (BIS, 2024; World Economic Forum, 2023).

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