



Geneva Report launch:

Changing Structure and Challenges of the International Financial System

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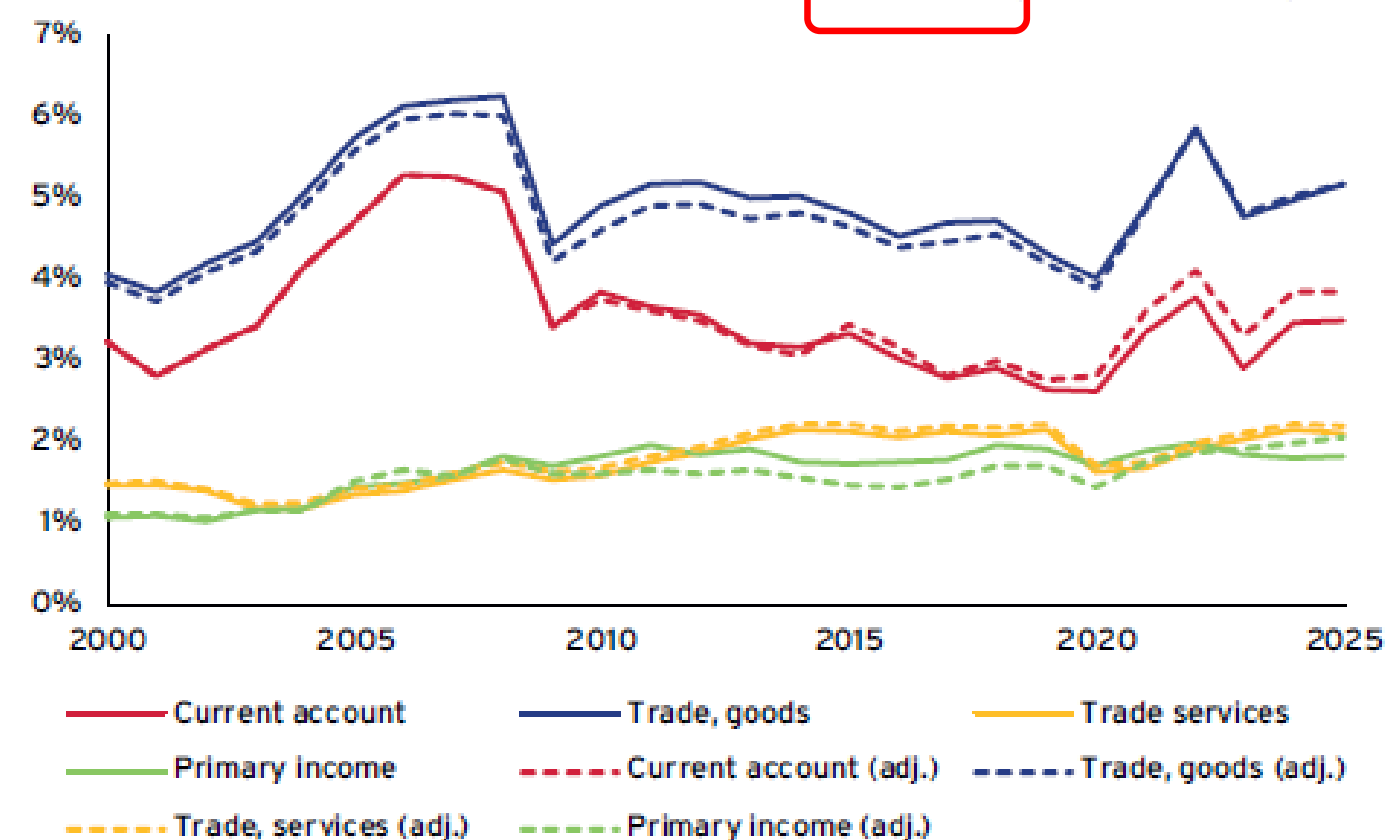
Changing Structure and Challenges of the International Financial System: Imbalances, Currencies, and Financial Stability

Chapter 1: Global Imbalances

Widening, but is it that bad?

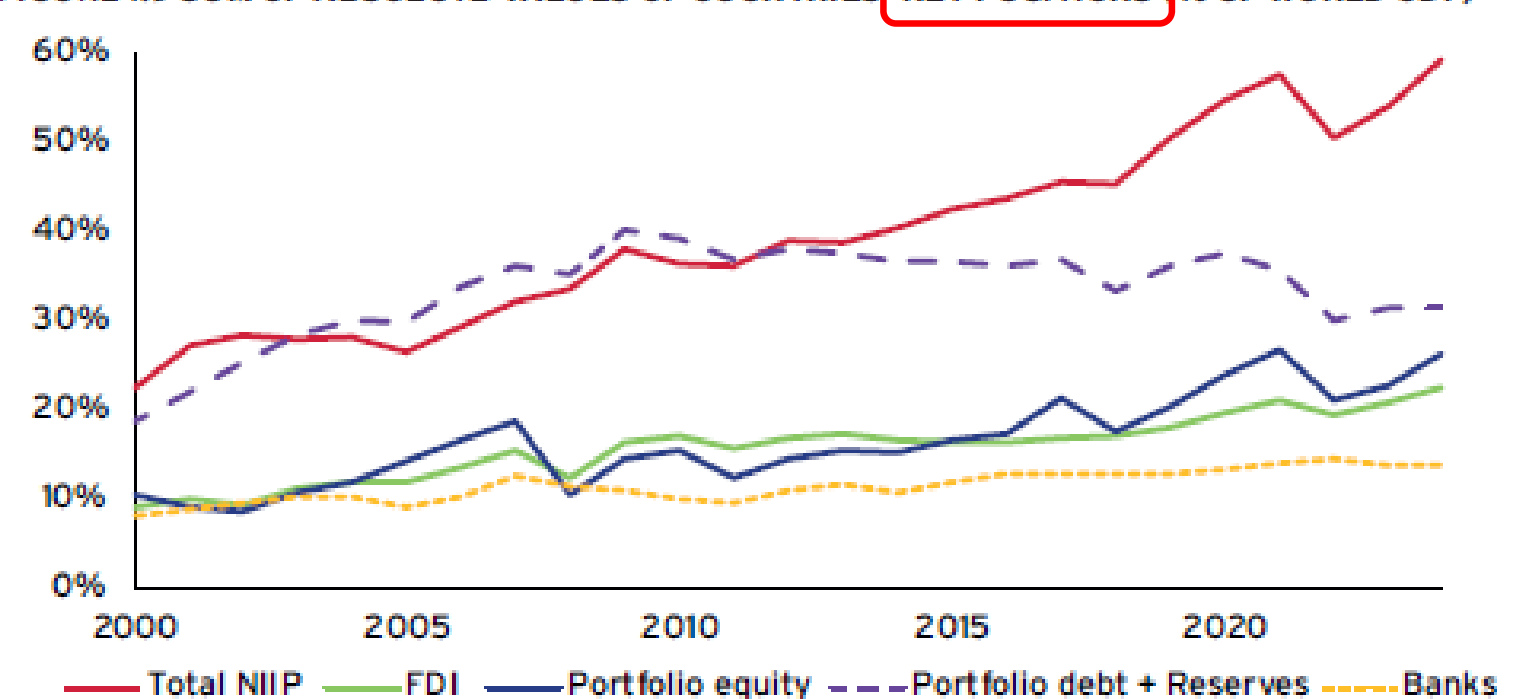
- Sum of absolute values of current account (left), or net positions (right).
- Flows: increase since 2020, but remain below the 2007 peak.
 - Even when adjusting for data issues in USA and China.
- Stocks: steady increase, changing composition.
 - Debt and reserves until 2008, FDI and equity since (valuation effects).

FIGURE 1.5 SUM OF ABSOLUTE VALUES OF COUNTRIES' BALANCES (% OF WORLD GDP)



Source: IMF balance of payments and WEO; Bayoumi and Gagnon (2025); Setser (2025a,b,c,d); author's computations.

FIGURE 1.9 SUM OF ABSOLUTE VALUES OF COUNTRIES' NET POSITIONS (% OF WORLD GDP)



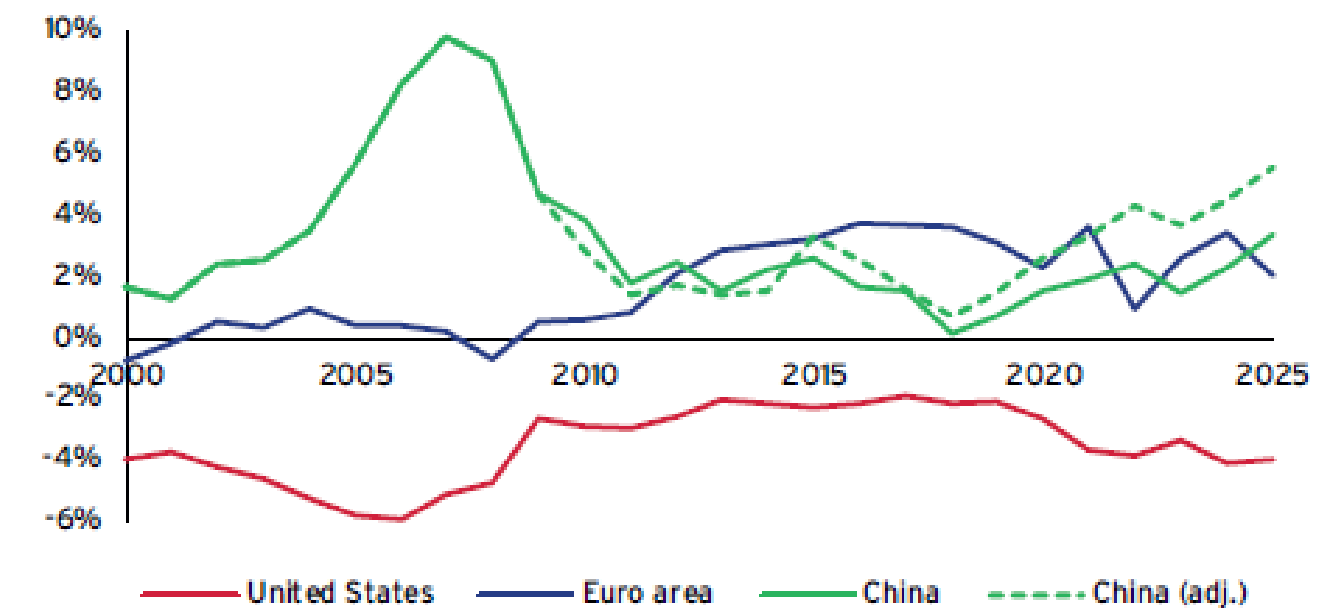
Source: External Wealth of Nations database; author's computations.

Not really global

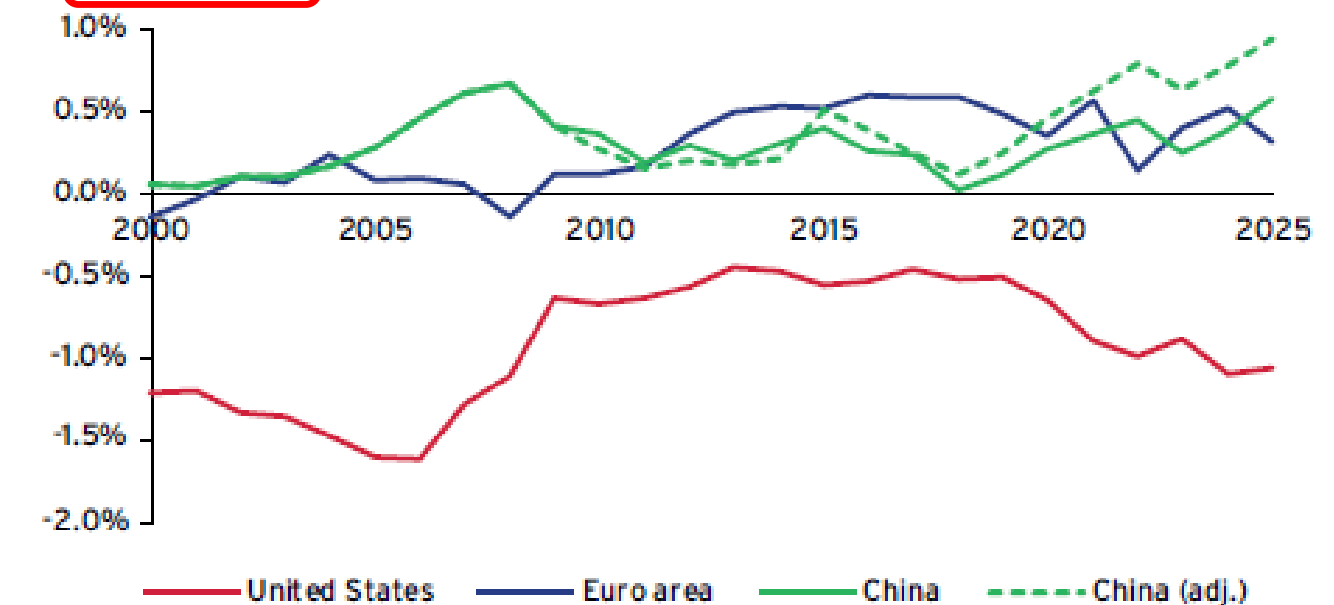
- Imbalances driven by China, USA, Euro area.
 - For flow and stock measures.
- Rising China's surplus, but not unusual compared to domestic GDP (top).
 - Even if surplus in goods is underestimated.
- China has become larger, the USA smaller.
 - Relative to world GDP, Chinese surplus is very high compared to the past.
 - Context of low domestic demand (housing bust) and high supply (industrial policy).
 - «China shock 2.0», in more advanced sectors than in the past.

FIGURE 1.4 CURRENT ACCOUNT BALANCES

a) % of domestic GDP



b) % of world GDP



Source: IMF balance of payments and WEO; Bayoumi and Gagnon (2025); Setser (2025a,b,c,d); author's computations.

Is it worrisome? It depends on focus

- Standard international macroeconomics view.
 - Fundamentals: heterogenous ageing, investment leading to productivity.
 - Ability to issue financial assets (export of financial service)..
 - «Beggar-thy-neighbor» : China takes demand from the rest of the world...
 - ...but provides cheap imports.
- Some policies can be questionable, but primarily domestically (fiscal deficit, lack of household safety net).
- Macroeconomics + concentration & speed view.
 - Employment costs concentrated in regions and sectors.
 - Rapid / large change hinders ability to reallocate absorb.

Finance view

- Macroeconomics + financial stability view.
 - Shift to contingent assets improves risk sharing. Beware of leverage.
 - High gross capital flows fuel inefficient credit → risk of subsequent sudden stop crises. Applicable to euro crisis, but not GFC.
- Global financial cycle, with surges and sudden stops.
 - Inefficiency if externality leads to excessive borrowing.
 - Broad toolkit to handle volatile capital flows (IPF, sequencing).

New elements

- Macroeconomics + industrial policy view.
 - (Macro) industrial policy, demand restrictions (e.g. FX reserves, IMF 2026).
 - Smaller traded sector in deficit countries → hinders innovation..
- Macroeconomics + geopolitics (resilience) view.
 - Reliable domestic supply of strategic goods.
- Political dynamics: disruptions raise risk of political radicalisation.
- Accent on China: larger size amplifies the spillovers.
 - The rest-of-the-world cannot easily absorb spillovers.

Which policies should we adopt?

- First best: global policy coordination (US fiscal gap, Chinese consumption).
 - Fine, but is it realistic? Effect from mostly from China.
 - Countries don't adopt domestically beneficial policies on their own, can global motivation really help?
- Domestic policies, as several elements are not about imbalances.
 - Antitrust and competition policy (reduce dividends paid abroad).
 - Pressure on innovation → promote R&D (clusters, taxation of new firms).
 - Resilience for strategic goods → subsidy, even nationalization, of the sectors.
 - Disruptive reallocation → retraining, stabilize income distribution (taxation, bargaining power).
 - Tariffs maybe to smooth the cost, but limited effect (IMF 2026).
 - Capital flows volatility (gross) → macroprudential policy.



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Changing Structure and Challenges of the International Financial System: Imbalances, Currencies, and Financial Stability

Chapter 2: The Future of Global Currency Dominance

Outline of Chapter

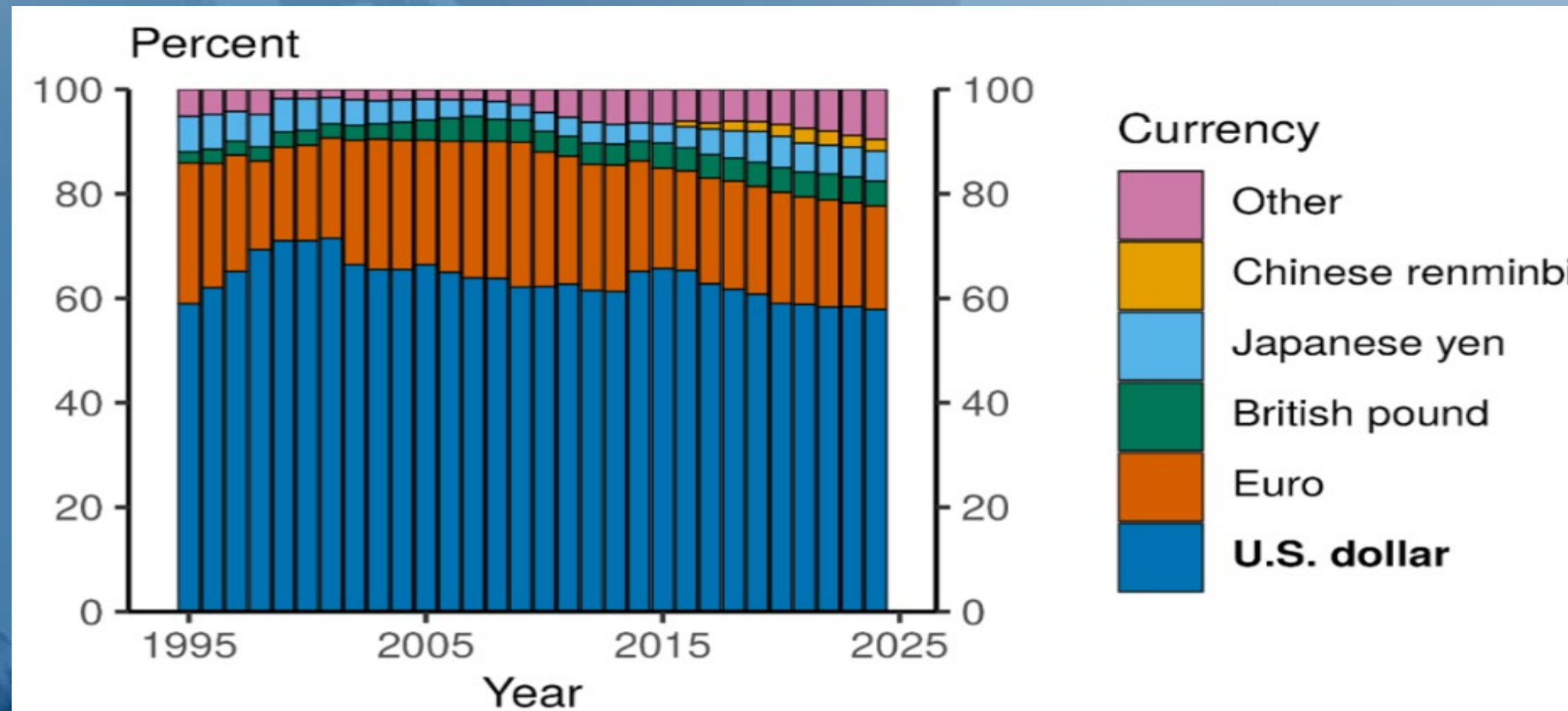
- I. The dollar remains número uno.
- II. Damage to the dollar from Liberation Day, and prospective effects of continued counterproductive US policies.
- III. Potential for replacement of the dollar by
 - a. the euro
 - b. the renminbi
- IV. Scenarios for a more balanced multipolar world



I. Centrality of the dollar in the global financial system.

Despite all the buzz about abandoning the dollar, the dollar share of reserves has declined only slightly in recent years.

Currency Shares in International Reserve Holdings

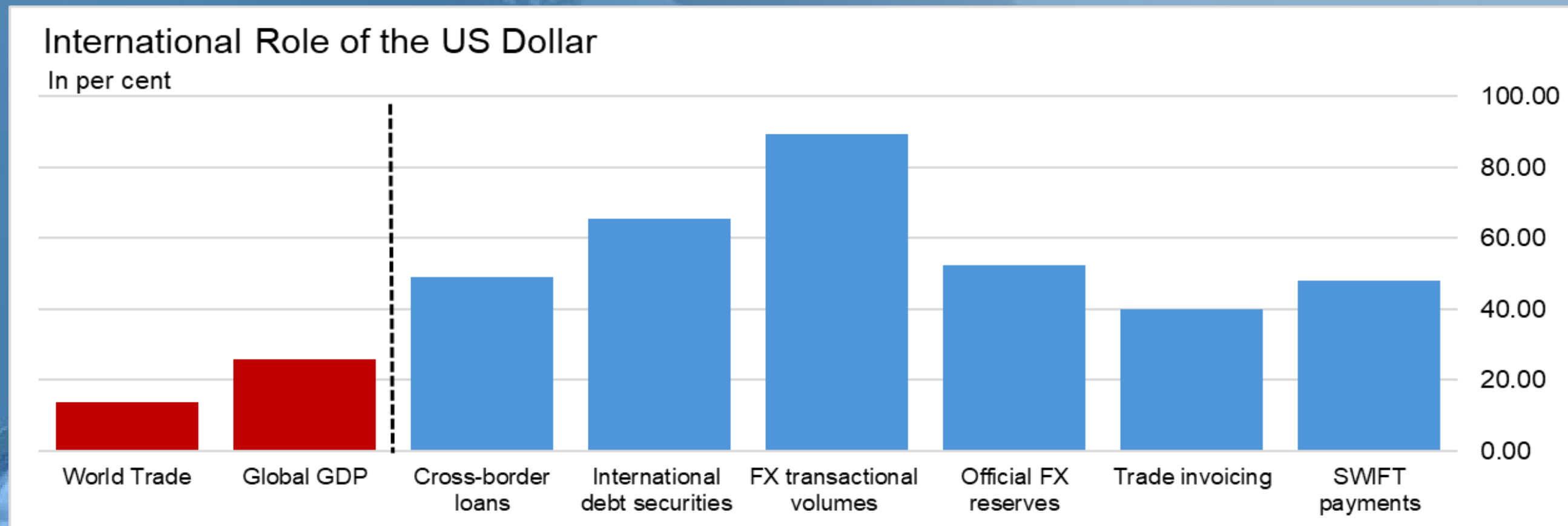


I. Centrality of the dollar in the global financial system.

And reserves are not the only measure of currency dominance.

Across all measures of currency use, the dollar punches above its weight in the global economy.

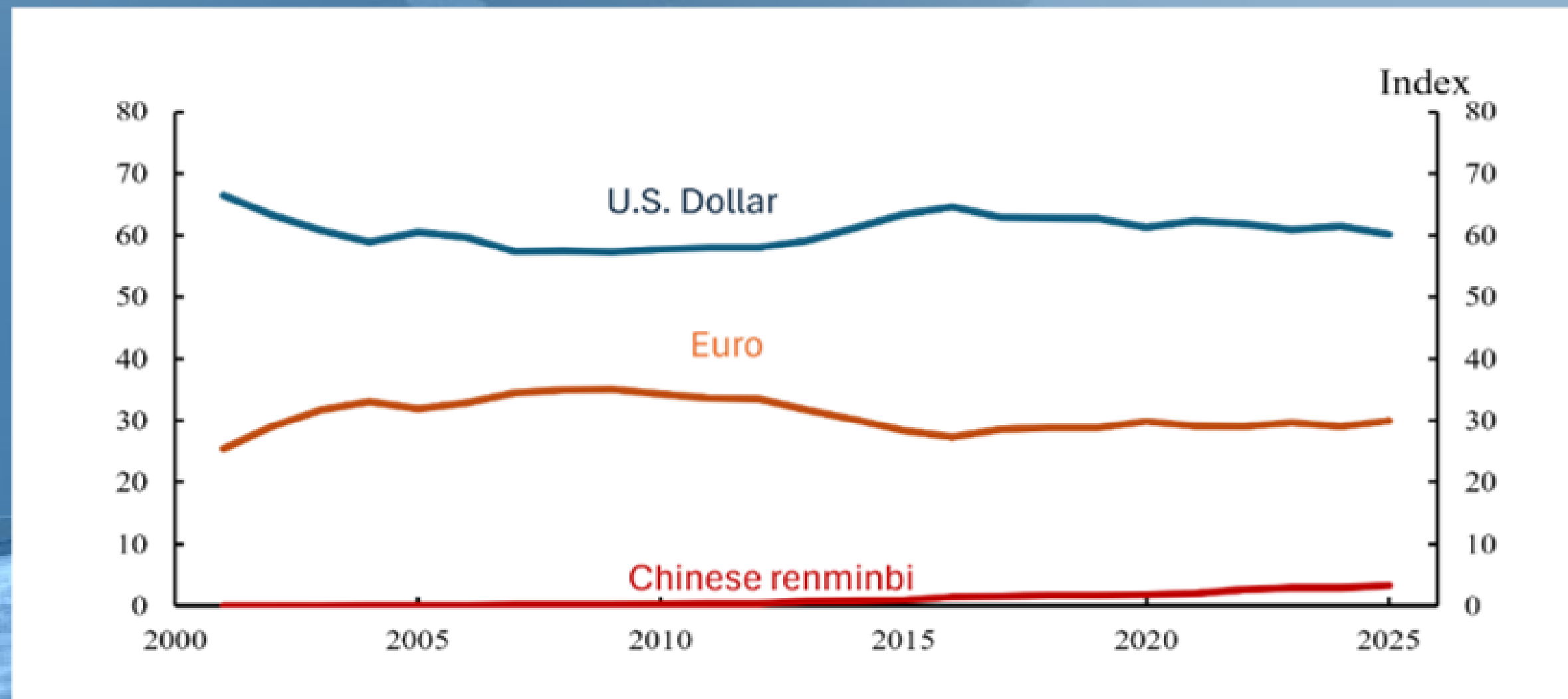
Dollar Shares in Global Financial Transactions



I. Centrality of the dollar in the global financial system.

All told, composite measures of global dollar use continue to far exceed use of the euro and, especially, the renminbi.

Indexes of International Currency Usage



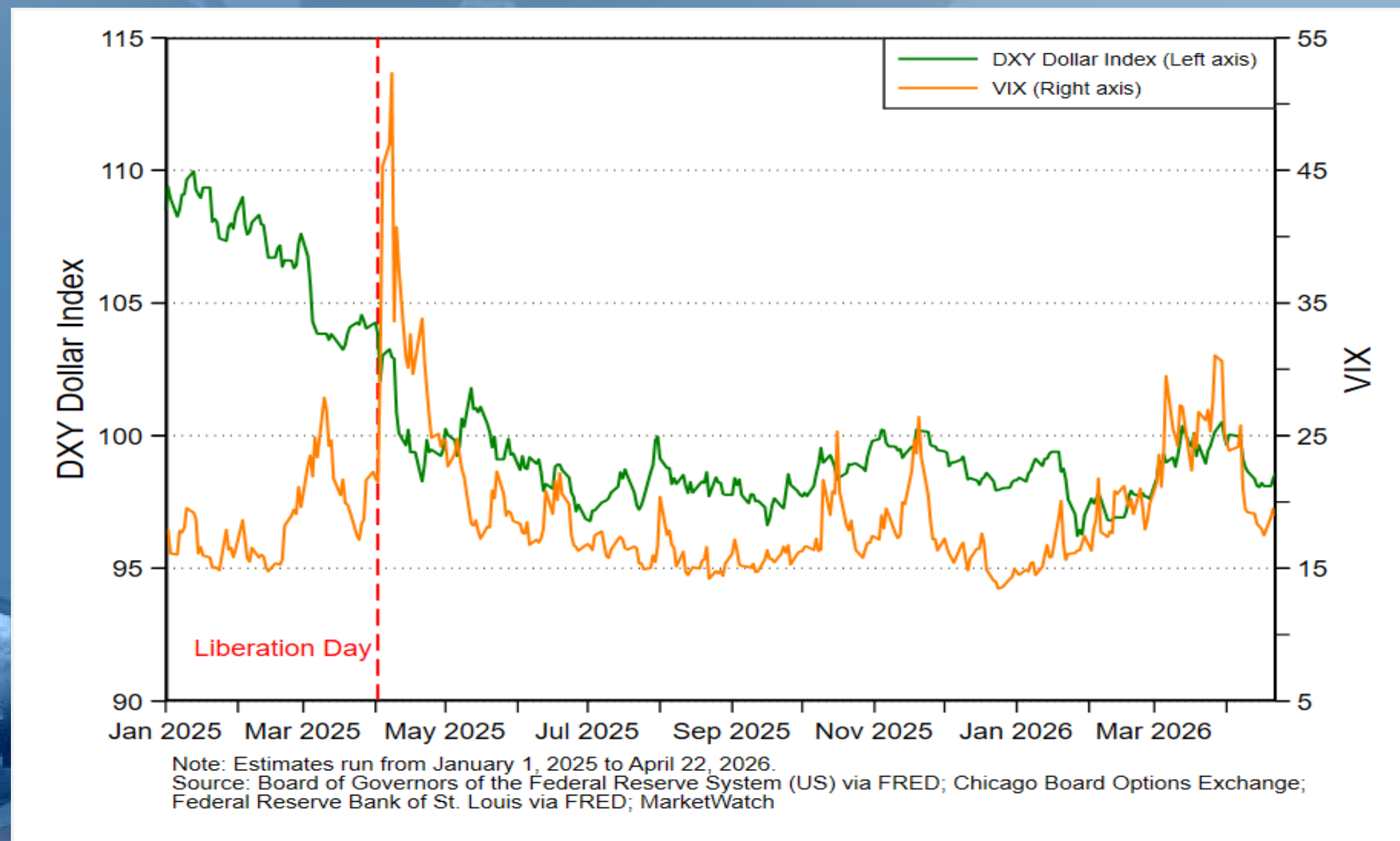
II. Liberation Day and its aftermath

 Reciprocal Tariffs			 Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs	Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%	Peru	10%	10%
European Union	39%	20%	Nicaragua	36%	18%
Vietnam	90%	46%	Norway	30%	15%
Taiwan	64%	32%	Costa Rica	17%	10%
Japan	46%	24%	Jordan	40%	20%
India	52%	26%	Dominican Republic	10%	10%
South Korea	50%	25%	United Arab Emirates	10%	10%
Thailand	72%	36%	New Zealand	20%	10%
Switzerland	61%	31%	Argentina	10%	10%
Indonesia	64%	32%	Ecuador	12%	10%
Malaysia	47%	24%	Guatemala	10%	10%
Cambodia	97%	49%	Honduras	10%	10%
United Kingdom	10%	10%	Madagascar	93%	47%
South Africa	60%	30%	Myanmar (Burma)	88%	44%
Brazil	10%	10%	Tunisia	55%	28%
Bangladesh	74%	37%	Kazakhstan	54%	27%
Singapore	10%	10%	Serbia	74%	37%
Israel	33%	17%	Egypt	10%	10%
Philippines	34%	17%	Saudi Arabia	10%	10%
Chile	10%	10%	El Salvador	10%	10%
Australia	10%	10%	Côte d'Ivoire	41%	21%
Pakistan	58%	29%	Laos	95%	48%
Turkey	10%	10%	Botswana	74%	37%
Sri Lanka	88%	44%	Trinidad and Tobago	12%	10%
Colombia	10%	10%	Morocco	10%	10%

II. *Liberation Day and its aftermath*

The combination of falling dollar and rising VIX after Liberation Day suggested that investors no longer viewed dollar assets as safe assets.

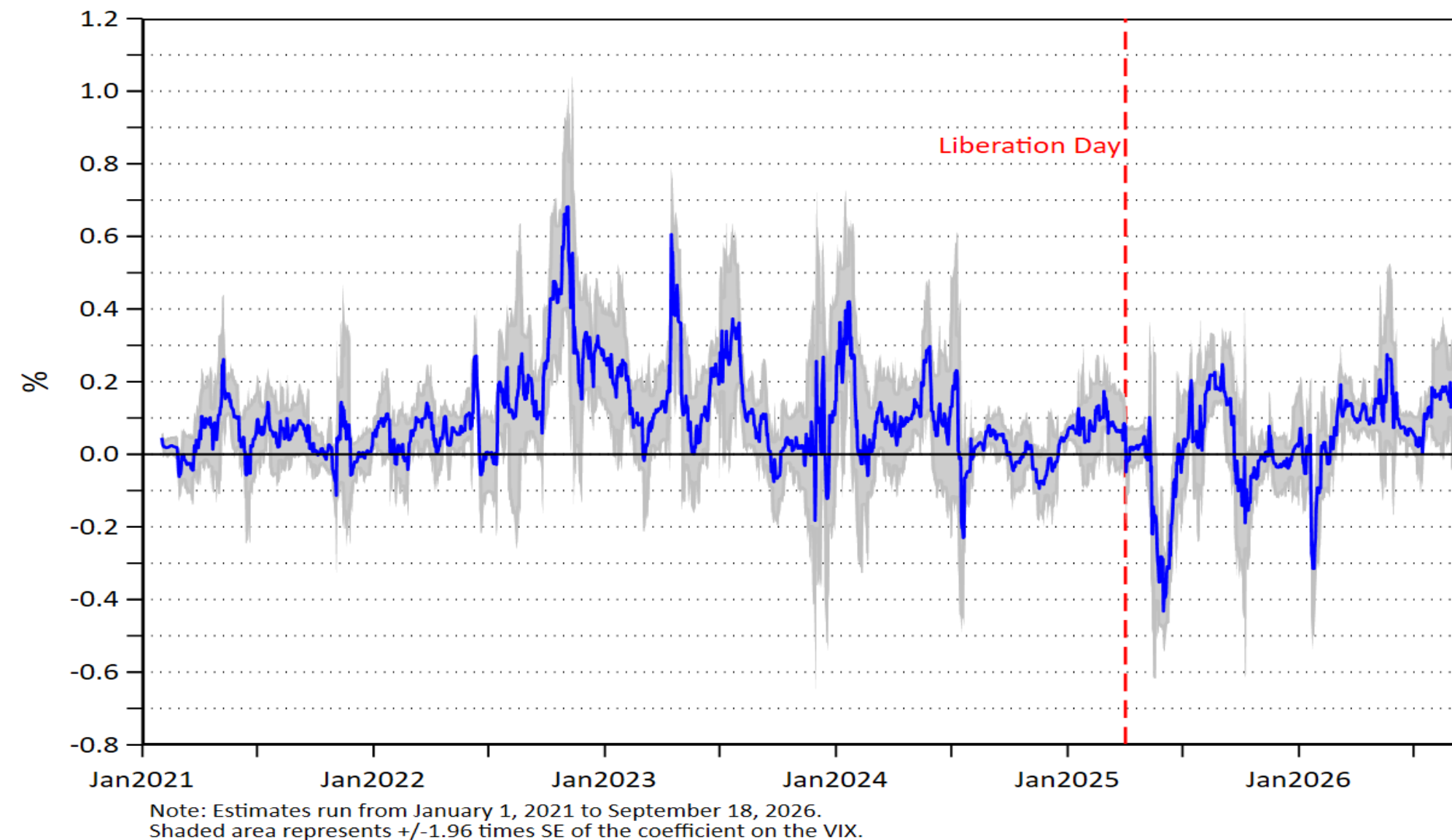
Fig 7. VIX Volatility Index and DXY Dollar Index



II. *Liberation Day and its aftermath*

The estimated sensitivity of the dollar to the VIX turned negative after Liberation Day, more like an emerging-market risk-on currency than a safe-haven currency.

Estimated sensitivity of the dollar to the VIX



II. Liberation Day and its aftermath

The dollar has reverted to its normal, positive sensitivity to financial volatility, but many policies could weaken dollar dominance if continued:

- Prolonged federal deficits and rising debts.
- Weakening of rule of law.
- Capricious economic policies.
- Attacks on the Federal Reserve.
- Actions that weaken bonds of cooperation with our allies.



III. Prospects for an expanded international roles of the euro and renminbi.

New impetus to long-standing desires of Europe and China to challenge dollar supremacy.

- Counterproductive and belligerent US policies reinforce desire to reduce dependence on the dollar.
- US policies offer new opportunities for competitor currencies to expand global reach.
 - Countries targeted by sanctions (Russia, Iran) shifting to renminbi to avoid using dollars.



III.a Prospects for an expanded international role of the euro

Factors limiting global use of the euro:

- Limited supply of European super-safe assets like EU bonds.
- Lack of comprehensive fiscal union.
- Fragmentation of European private financial markets.
- Lower growth rate of European economy.
- Failure to develop independent military/diplomatic alliances.



III.a Prospects for an expanded international role of the euro

Initiatives to address limiting factors:

- Renewed push for more Eurobond issuance (Blanchard and Ubide, 2025).
- Renewed push to remove barriers to Single Market and complete Banking and Capital Markets Union.
- ECB offers euro swap lines beyond Europe.
- Expanding trade agreements (Mercosur, India).
- ECB has received provisional “green light” for digital euro.



III.a Prospects for an expanded international role of the euro

- Unclear how much policy reform will actually be implemented.
- Unclear how much impact policy reform will have on actual currency use around the world.



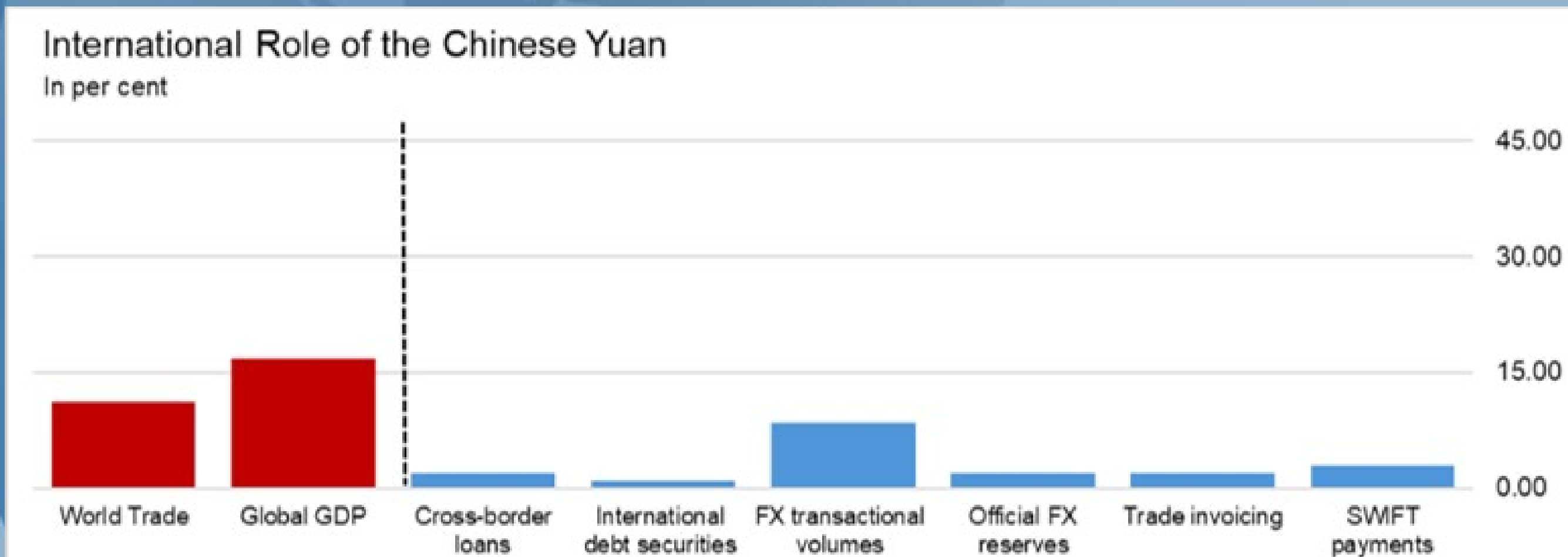
III.b The expanding global role of the RMB



III.b The expanding global role of the RMB

The renminbi punches *well below* its weight in the global economy.

Renminbi Shares in International Financial Transactions



III.b The expanding global role of the RMB

Factors limiting global use of the RMB:

- Capital controls.
- Concerns about reliability/credibility of Chinese government and rule of law.
- Opacity of China's financial system.

“The real obstacle to the internationalization of the renminbi may be less the absence of the rule of law and more the absence of the rule of accounting.

But accounting probity is exactly what the renminbi needs to even come close to the euro's level of internationalization.” (Financial Times, 2026)



III.b The expanding global role of the RMB

Initiatives undertaken by Chinese government to promote global use of the RMB:

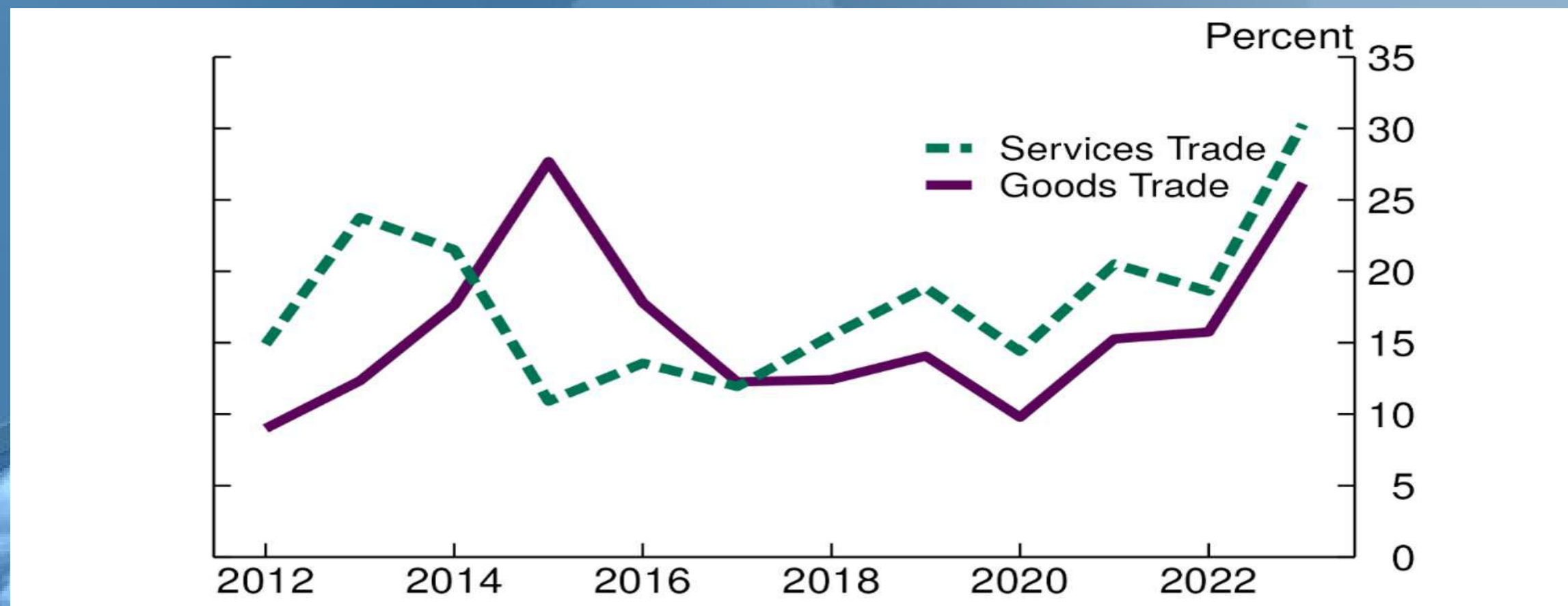
- Shanghai-Hong Kong Stock Connect Program (2014), Shenzhen-Hong Kong Stock Connect Program (2016), etc. to provide more outside access to Chinese equity and debt markets.
- Network of offshore clearing banks to clear and settle renminbi payments, facilitate use of renminbi by foreigners outside China.
- Cross-Border Interbank Payment System (CIPS) to clear renminbi cross-border payments; operates independently of dollar payment arrangements.
- Bilateral swap lines to 32 central banks or monetary authorities; mainly for trade facilitation, but some bailouts (Argentina, 2023).

III.b The expanding global role of the RMB

Initiatives to boost use of RMB in trade will likely be successful.

Use of RMB in Chinese bilateral trade rising substantially.

Share of Chinese Trade Settled in Renminbi



Von Beschwitz, Bastian. 2024. "Internationalization of the Chinese renminbi: progress and outlook," Federal Reserve Board *FEDS Notes*, August.

III.b The expanding global role of the RMB

However, full internationalization of RMB for financial saving and transactions seems unlikely.

- Concerns about capital controls, concerns about Chinese government as counterparty, and opacity of Chinese financial system to limit full internationalization.
- Even for limited holdings of RMB for trade purposes, foreigners will want dollar backing to guarantee quick/efficient ability to liquidate RMB.
- Therefore, Eichengreen et al. argue China will continue to require large dollar stocks:

“The two reserve currencies would be complements, not substitutes. “



IV. Scenarios for a more balanced multipolar world



IV. Scenarios for a more balanced multipolar world

- Although the dollar is the world's more prominent currency, we already live in a multipolar currency world.
- The international use of the euro and RMB is gaining ground, so the dominance of the dollar will likely be diminished in years to come.
- Under any but most extreme scenario, the dollar unlikely to be replaced by another currency. The most likely outcome under any scenario is a continued multipolar currency world, but a more evenly balanced one.



IV. Scenarios for a more balanced multipolar world



IV. Scenarios for a more balanced multipolar world

- Continued strong growth of trade and economic activity abroad.
- Reforms to support economic growth and financial integration in euro area.
- Progress to open China's financial system, facilitate currency trading, and improve transparency and accountability.
- Active portfolio diversification by reserve managers.
- Improvements in payments technology may reduce the use of the dollar for transactions between non-U.S. economies.



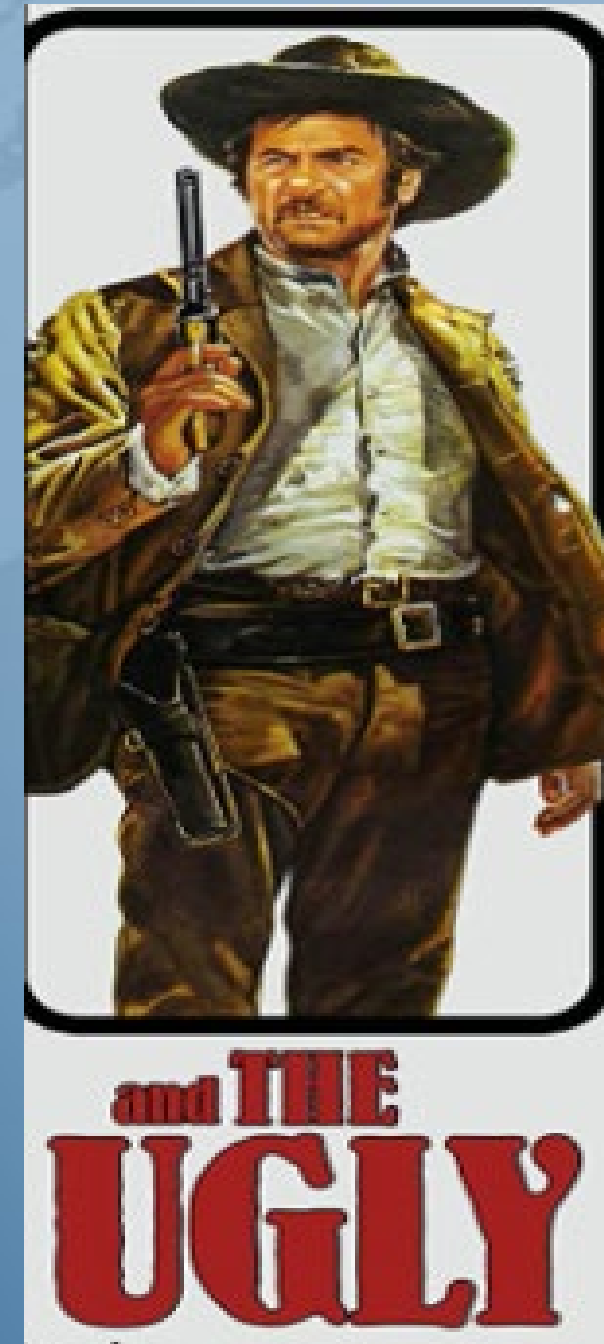
IV. Scenarios for a more balanced multipolar world

- Geopolitical tensions lead to fragmentation of global trade and finance into U.S.- and China-led blocs.
- Shifts of reserves out of dollars to avoid sanctions.
- Aided by China's aggressive encouragement of use of renminbi in international payments.
- Not just the good scenario with less dollar dominance.
- Global fragmentation leads to reduced efficiency, innovation, growth, and prosperity.



IV. Scenarios for a more balanced multipolar world

- U.S. budget deficits persist and debt mounts amid continued political polarization and dysfunction.
- Constraints on the Federal Reserve lead to rising inflation.
- The result is a crowding out of private investment, heightened financial volatility, and reduction in the dynamism of the US economy.
- The dollar loses its dominance, but with the world's largest economy and financial system imploding, that's nothing for the rest of the world to celebrate.



Thank you!

On to Chapter 3...





Geneva Reports on the World Economy 29

Changing Structure and Challenges of the International Financial System: Imbalances, Currencies, and Financial Stability

Chapter 3: How Global Liquidity Evolved – and What It Means for Today's Financial Stability

What is Global Liquidity?

The Poetic view 

Liquidity is like love in many ways: invisible, hard to define, and impossible to measure.

What is Global Liquidity?

The Structural view  *It requires:*

- **An intermediary** — whose balance sheet acts as the transmission channel; and
- **A backstop** — prepared to intervene when the vehicle falters.

The evolution of the global dollar system is, in large part, the story of shifts in the nature of intermediation.

Three eras of global dollar liquidity

	1950s–1971 Offshore eurodollar system	1970s–2007 Global bank balance sheets	2008–present Market-based system
Intermediary	London and European offshore banks	Global banks	Dealer banks at the centre, with hedge funds, MMFs, pension funds and insurers around them
Funding	Offshore dollar deposits	U.S. money market funds, interbank markets, repo	Collateralised market finance: repo, FX swaps, futures margin
Fragility	Bretton Woods strain	Wholesale rollover risk and gross flows	Dealer balance-sheet capacity may not support market liquidity in stress

Post-2008: The Treasury market became larger and more market-based

\$31.8 trillion

Marketable U.S. Treasury debt, August 2026
Up from \$4.5 trillion at end-2007 — a seven-fold increase

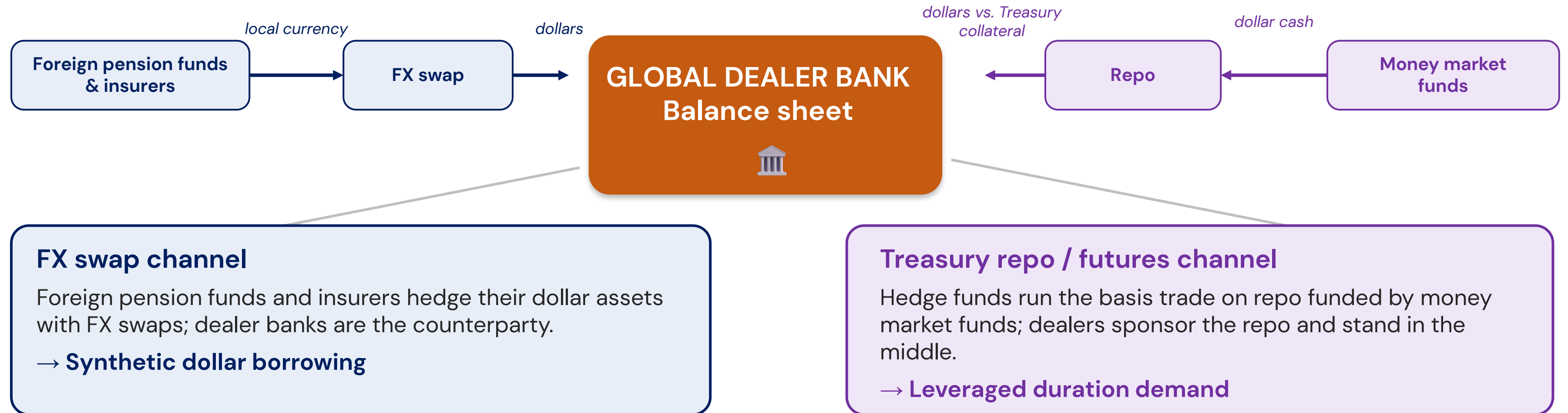


The shift to market-based finance also touches other currencies.

**The post GFC change was not just more public debt:
it was a new investor base and a more market-based form of intermediation.**

The Dealer-at-the-Centre view

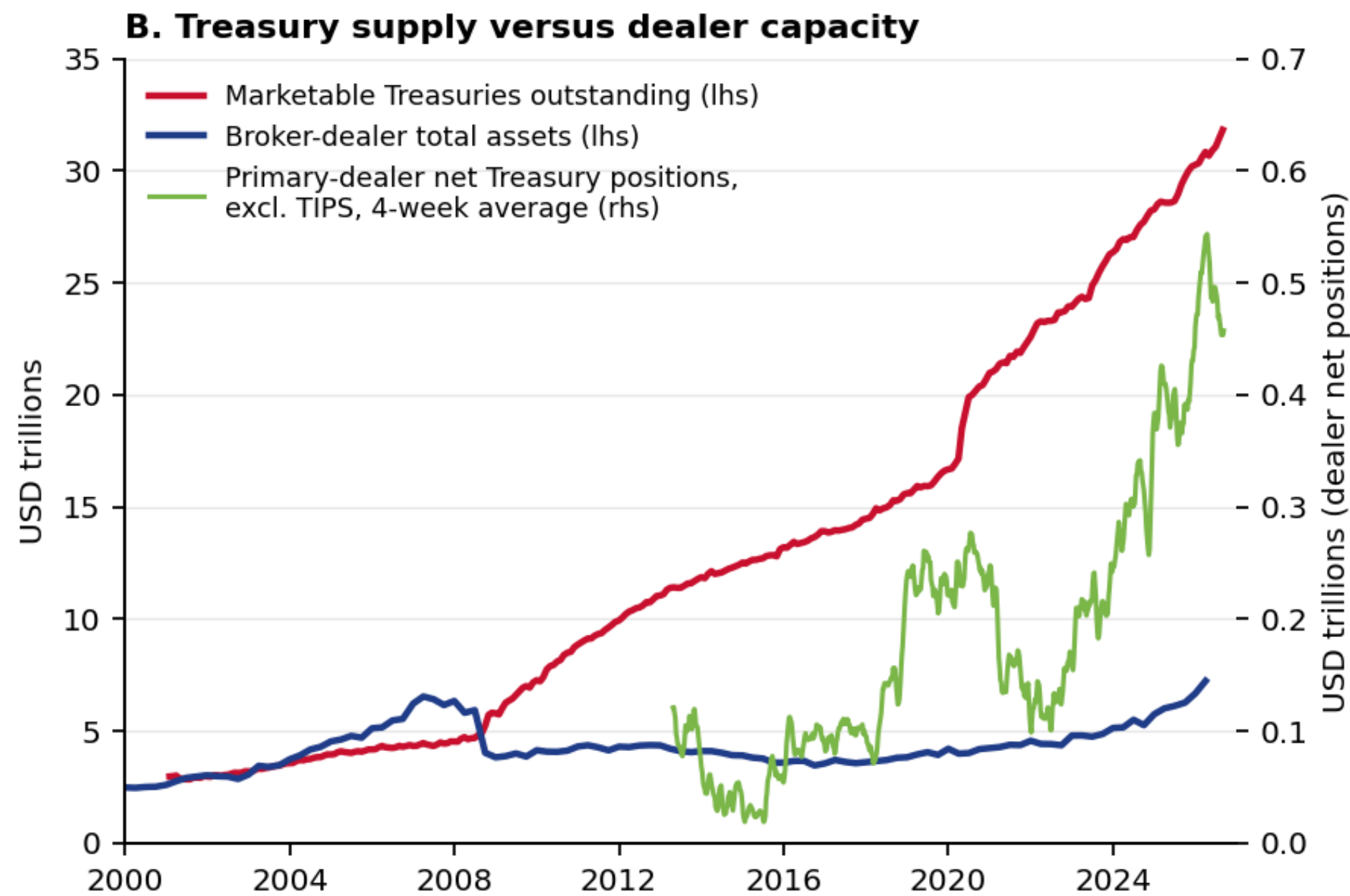
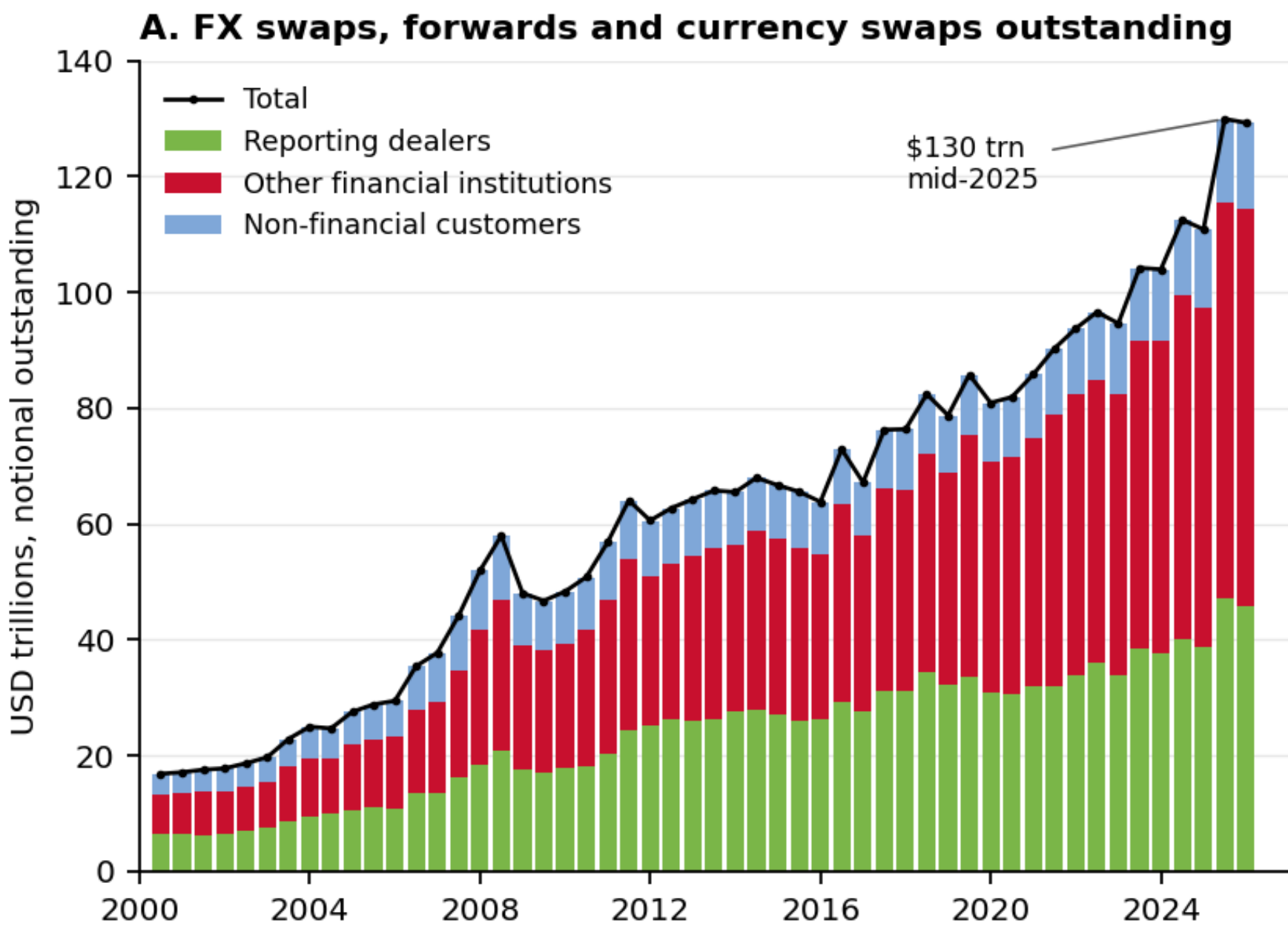
Follow the money: two channels, one balance sheet.



Key implication: dislocations that look local are symptoms of shared plumbing — dealer balance-sheet capacity.

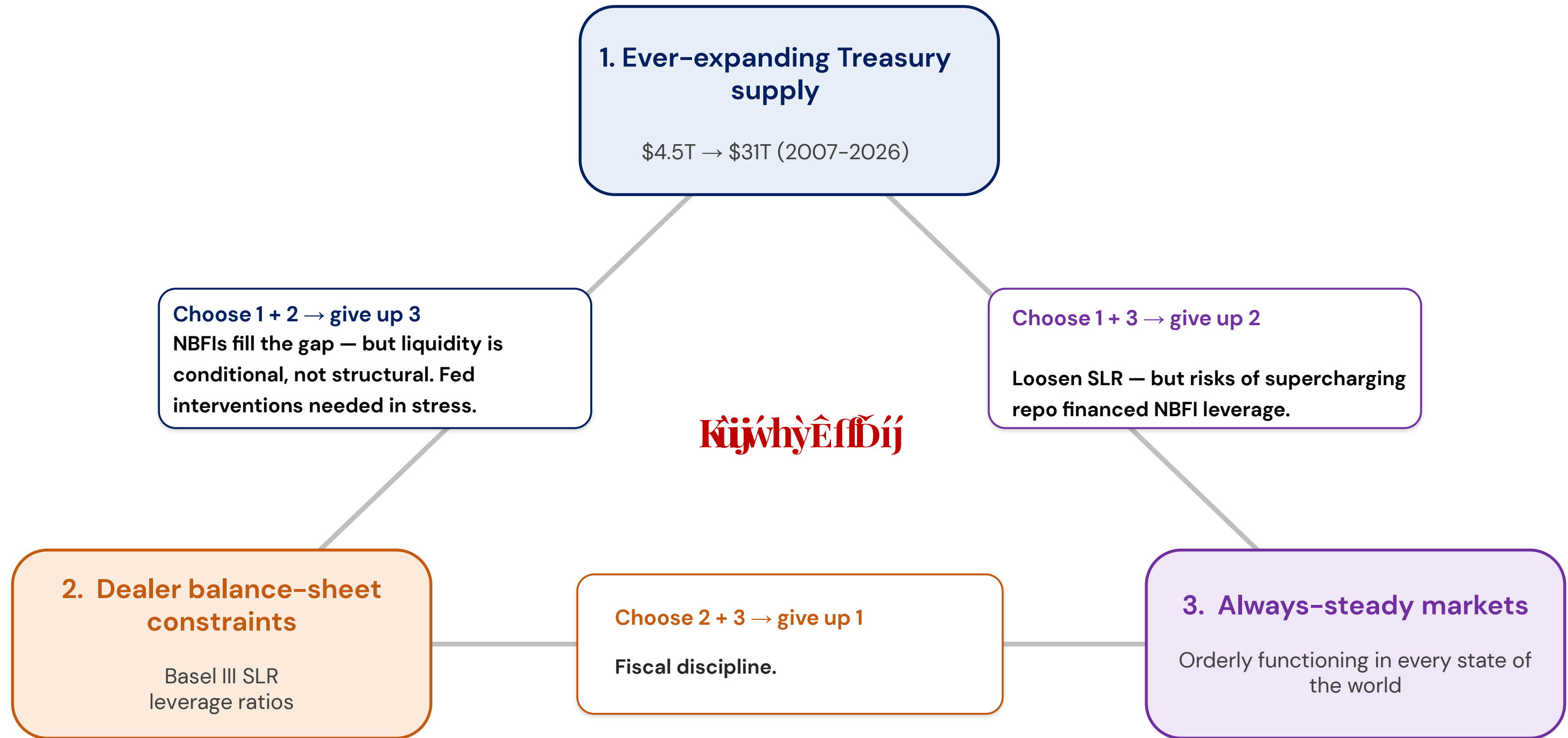
March 2020: strong dollar, both channels strained. **April 2025:** weak dollar, hedging channel only. *Same plumbing, different pressure.*

Two channels, one dealer balance sheet



Sources: Geneva Report 29, Figures 3.7 and 3.25. Panel A: BIS OTC derivatives statistics (Table D5.1, all currencies). Panel B: US Treasury MSPD; Federal Reserve Z.1 (FL664090005); FRBNY primary dealer statistics (FR 2004).

The New Market-Based Trilemma



The System Has Reconfigured, Not Retreated



What has changed

- Intermediation: banks → NBFIs + capital markets
- Dollar demand: via FX swaps + Treasury futures
- Fragility: concentrated balance sheets → layers of leveraged, market-based intermediation

What has not changed

- Dollar centrality (57% reserves, 89% FX trades)
- Backstop: still the Federal Reserve
- Dealer banks at the center of market functioning
- Absence of a credible safe-asset substitute



View the system as a *linked dashboard* — not FX swaps here, repo there, Treasuries elsewhere.



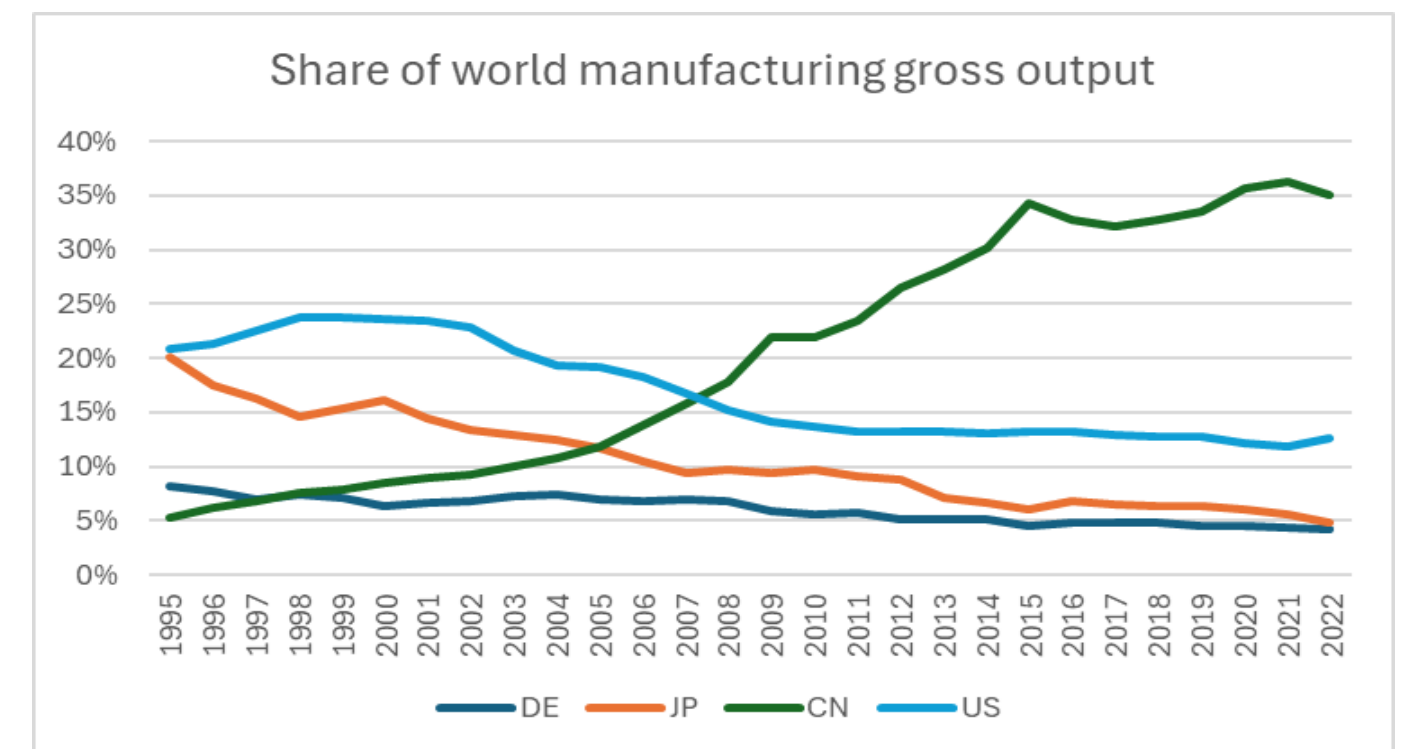
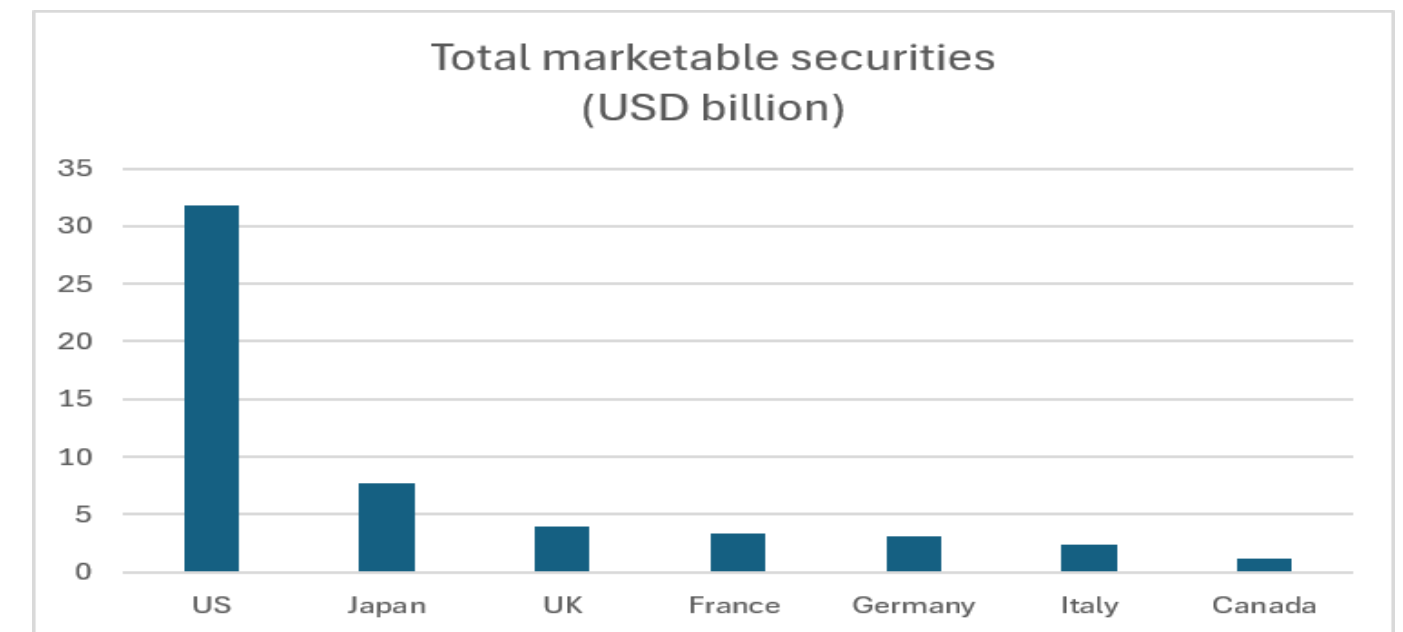
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Chapter 4: The Geopolitics of Imbalances: Size, Power Dynamics, and the Legacy of Past Crises

The geopolitics of global imbalances

- **Size** differences dictate global economic and financial dominance
 - US debt is only **global** asset
 - Stock of US Treasuries, in USD = 1.5 * combined debt of rest of G7
 - China dominates **global** manufacturing
 - Share of global manufacturing > sum of next 3 largest countries
 - EU chose to be a group of **small** countries
 - 27 fragmented markets



The geopolitics of global imbalances

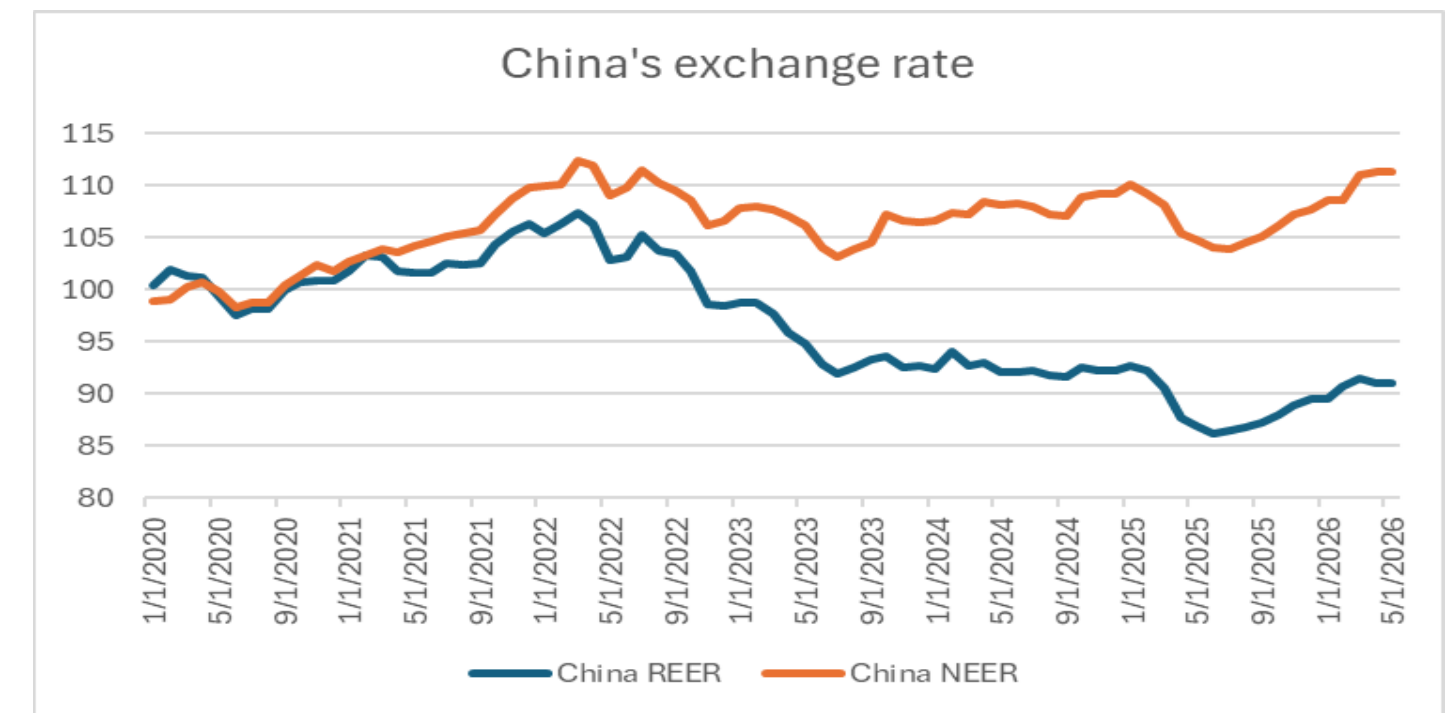
- Power dynamics drive *protectionist* economic policies
 - *Weaponized* interdependence and the boom in *economic statecraft*: tariffs, sanctions, subsidies, export and investment restrictions
 - *Checkpoint controls*: supply chains, critical materials, and payment systems as economic leverage
 - *The revival of neo-mercantilism*: focus on manufacturing and protectionism as a response to voters' economic insecurity

The geopolitics of global imbalances

- The legacy of past crises creates policy *inertia*
 - Post 2008 *bank regulatory tightening*: constraints on dealer balance sheets shift debt absorption to NBFIs
 - Euro crisis scars: entrenched *mistrust* across EU countries raises economic and financial fragmentation
 - China's 2015 capital account liberalization *scare*: retain capital controls and managed exchange rate to protect economic transition
- And different *policy preferences*
 - US: *large deficits* to support aggregate demand and tech leadership
 - China: *large deficits* to support investment and manufacturing dominance
 - EU: *small deficits* to meet fiscal rules

The geopolitics of tariffs and exchange rates

- **Tariffs** have done little for imbalances
 - US **trade deficit** remains very large
 - Third country rerouting implies little change in US-China dependency
- Does China's macro policy mix require an **undervalued** exchange rate?
 - **Deflationary burst** of housing bubble, ELB, no fiscal space
 - At time of **rapid** tech progress
 - => “**Reverse Dutch Disease**”
 - CNY appreciation as **geopolitical** tool



The geopolitics of financial stocks and flows

- USD: *weaponization* of payments and assets
 - Promoting USD role – limited impact of stablecoins
 - ROW developing alternative rails
- RMB: *international* currency, not reserve currency
 - Promoting use in payments – avoid weaponization
 - Very limited supply of Chinese bonds as reserve assets
- EUR: just a *regional* currency?
 - Digital euro as a monetary sovereignty strategy – avoid weaponization
 - Limited supply of safe assets despite better fiscal outlook
- => *No exit from USD liquidity*

The world in 2036

- ***Post weaponization*** equilibrium
 - The quest for domestic resilience and self sufficiency
 - Is a multipolar world with stronger EU and China more resilient?
- ***Politically comfortable*** equilibrium
 - US and China ***Mutually Assured Disruption***
 - EU as a perpetual middle power
 - The Fed as ***perpetual implicit backstop*** of US debt
- ***The new imbalances: the geoeconomics of AI***
 - Technology ***deficits***
 - Algorithmic ***weaponization***