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THE SHIFTING BIPOLARITY: ANALYSING THE EURO'S ASCENSION AND THE EROSION OF US DOLLAR SUPREMACY

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Abstract
The longstanding hegemony of US dollar (USD) is now facing an unrelenting challenge owing to external geopolitical weaponization and internal fiscal pressures. Although the use of the currency network inertia is central in the traditional theories, they do not sufficiently incorporate the two current forces: the supply side effect on institutional breakthroughs (Eurozone unified debt) and the accelerating demand side pressure to de-dollarize through sanctions. The hypothesis of this paper is that the international monetary order is in a controlled shift to stable bi-polar in USD-Euro, and that the development of a deep, liquid safe asset pool by the Eurozone plus the rising cost of the USD as a strategic tool had triggered the shift. In testing this, a panel data regression model will be used to determine central bank reserve diversification (COFER data) in relation to the indicators of EU unified debt volume. This is supplemented by the quantitative study of trade invoicing and the use of cross border payment systems (SWIFT vs. CIPS/INSTEX) to approximate the geopolitical risk aversion. The results indicate that institutional supply-side maturity is a prerequisite, but the geopolitical risk premium is the possible catalyst to the observed diversification and provides important implications about the future of world finance.

Key Words: *Exchange rate, US dollar, Euro, Bipolarity and Forecasting.*

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1. Introduction

The US dollar (USD) is a privilege that has been identified as exorbitant as characterising the global financial architecture after the breakdown of the Bretton Woods system (Herzog, 2019). The dollar has ruled the world of international trade invoicing (Amiti, Itskhoki, and Konings, 2020) and sovereign debt issuance, as well as official foreign exchange reserves anchored by the scale and profundity of the US capital markets and supported by decades of geopolitical stability (Aizenman, Cheung, and Qian, 2019). The result of this unipolar monetary system is that the United States has a great deal of seigniorage, as well as asymmetrical influence over financial stability in the world (Herzog, 2019). But the stability of this dollar based order that has prevailed over the years is undergoing deep structural issues that may denote the possibility of a shift towards a bipolar world system of monetary systems. The introduction of the Euro (EUR) is the most important institutional and geopolitical counter to the dominance of the USD since the mid-20 th century. The creation of the Euro within the framework of a project to integrate deeply into Europe has gradually tried to fill the functions of transactions that were played by the dollar and its role as a secure asset (Lee & Yoon, 2020). Although, as the initial years of the Eurozone were marked by the external currency volatility (Fink, Haiss, Oebersedra, and Raina, 2007) and later on by internal debt crisis, the recent reforms targeting the deepening of the capital market and the institutional resilience have been the decisive factor in establishing a credible international currency (Salomao and Varela, 2018). There are a number of structural drivers that accelerate this nascent transition. The continued rise of the US fiscal deficit and debt-based vulnerabilities on the supply side of safe assets amplifies the long-run sovereign risk of the dollar (Aizenman, Cheung, and Qian, 2019). At the same time, the active weaponization of the dollar, by the introduction of financial sanctions, stimulates economic actors and sovereign states to find other ways of settling their debts and holding reserves to reduce the risk of financial subordination (Herzog, 2019). The above-mentioned global reserve diversification hunt can be clearly seen in the speeding up tendencies among the emerging market economies to decrease the dollar reserves, both precautionary and mercantile motives (Lee & Yoon, 2020). Also, the ongoing Eurozone integration (including the capital markets consolidation attempt) contributes to the improvement of the quality and accessibility of the Euro-denominated safe assets and makes the EUR an even more feasible option (Salomao and Varela, 2018).

Summing up, these forces present the notion of shifting bipolarity, which is the epochal change of the single dollar framework to a place where USD and the EUR are having approximately equal, but dynamically shifting, influence. This does not mean an abrupt fall of the dollar but it is more of gradual redistribution of global financial gravitas. The paper aims at assessing the thesis statement of whether institutional development and financial integration of the Euro as well as its geopolitical location indicates an irreversible transition to monetary bipolarity or not. In the current paper, the concept of a gradual change in the unipolar system into a bipolar (USD-Euro) monetary system has been coined shifting bipolarity so as to explain the development of this gradual change. This has changed as witnessed in the international responses to their respective policy moves. As an illustration, a recent research on non-traditional assets indicates that a tightening of monetary policy by the U.S. leads to higher demands of assets such as Bitcoin, especially among the emerging markets, which implies capital flight out of the dollar system. On the other hand, an ECB tightening reduces its price, which is in line with a traditional digital gold hedge (Karau, 2021). This split indicates the monolithic role of the dollar being fractured, and it also indicates the world in search of alternatives. This essay aims at assessing the concept of whether the institutional development of the Euro, financial integration, and geopolitical placement are an irreversible move towards monetary bipolarity.

2.Literature review:

The global financial system created after the Bretton Woods has been dominated by the unipolar US dollar. This preeminence, as the major world reserve, as the invoicing and settlement currency, has long provided the special economic benefits to the United States and at the same time exports its home monetary policy shocks to the other countries of the globe. This system has a structural characteristic in the form of the profound international impact of U.S. policy regimes (Bianchi, Lettau, and Ludvigson, 2021) which frequently presents challenging trade-offs to other countries. In one example, the monetary policy independence of many small open economies with a large commitment to foreign-currency debt is eroded, forcing them to imitate the Federal Reserve policy to stay afloat, which is called fear-of floating (Georgiadis and Zhu, 2021). With the creation of the Euro in 1999, however, was the first real institutional and geopolitical challenge to the hegemony of the dollar. The Euro has been experiencing severe internal pressures but its development, financial convergence, and new institutional changes, including the establishment of common debt instruments, have contributed to strengthening the credibility of Euro as a promising alternative. This rise to prominence of the institution is accompanied by increasing structural strains in the dollar-led order. All these drivers are not solely due to

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never-ending U.S. fiscal deficits and debt based vulnerabilities but also to the increasing weaponization of the dollar by financial penalties, actively stimulating a global reserve and settlement system diversification hunt. This dynamic has triggered the re-examination of the comparative spillovers of the two largest monetary blocs in the world. The comparison of the unconventional Federal Reserve and European Central Bank (ECB) policy adopted recently indicate there is a subtle image. Although the global macroeconomic effect of Fed policy is still bigger in scale, the international risk-taking channel of ECB is now believed to be as powerful as ever, suggesting an increase in global financial capability (Miranda-Agrippino and Nenova, 2022). This changing relationship adds novel complications to the transmission processes, which are reflected by the ongoing riddle of how exchange rates respond to monetary policy surprises on both sides of the ocean (FED and ECB) (Gürkaynak, Kara, Kısacıkoğlu, and Lee, 2021). I. Maturity and the Safe Asset Nexus on the Supply Side.
The supply-side support of making the Euro a global safe asset may be attained through the issuance of common Eurozone debt instruments, including NextGenerationEU.
The institutional change will fix the so-called Safe Asset Paradox: the liquidity alternative to US Treasuries will help central banks to achieve structural diversification of central bank holdings.
As an emerging market economy, the emerging economies have greatly diminished their vulnerability to the original sin by moving to long foreign-currency exposures, which increases the stability of a bipolar balance sheet.

- The hierarchy in the global currency causes structural costs to peripheral countries, as they have to pay more interest rates to counter their low positioning relative to the USD.
- II.Strategic Diversification and geopolitical Risk.
- Although institutional maturity is a necessary condition, the so-called geopolitical risk premium is the accelerant of de-dollarization in the present world order.
- Strategic weaponization of the dollar through financial sanctions will encourage non-aligned countries as well as at-risk countries to build alternative payment systems such as CIPS and INSTEX.
- This transition is referred to as a controlled duopoly in which the USD serves as the world standard of finance, and the EUR as an operationally autonomous hedge of the Western sphere.
- The arguments of the central banks indicate that the motivation to diversify is becoming more driven by the need to safeguard monetary sovereignty against the US fiscal and regulatory expansions.

Monetary Spillovers and Policy dilemma.
Empirical evidence shows that the ECB has established its international risk-taking channel which has attained the global scope of influence comparable to that of the Federal Reserve.
The fact that the US monetary policy shocks are not sufficient to destroy the economies, however, suggests that the exchange rate flexibility is not enough on its own to fulfill the requirements of the hypothesis of the Dilemma.

- Designing Central Bank Digital Currencies (CBDC) is a strategic choice to avoid the oligarchy of the US-owned payment systems and minimize the lock-in effect of the dollar.
- The fracturing of the dollar as a monolith is recorded by divergent market responses to tightening of policy (i.e. USD tightening creating capital flow to Bitcoin and EUR tightening having the role of a conventional hedge).
- IV.Path Dependency and Resilience.
- Although there have been accounts of degradation, much of the recent declination in the reserve share of the USD is influenced by effects of exchange rate valuation as opposed to active and structural reallocation.
- US dollar index (DXY) continues to show behavior of mean-reverence, implying that the currency is experiencing a cyclical withdrawal and not structural collapse.

Global FX turnover and trade invoicing statistics: The network inertia of the USD is a strong anchor which ensures that this currency still has about 88% participation in all transactions of the currency.

3.Research Gaps
The study will fill three gaps in the current literature:
1.Non-traditional Diversification: The current models majorly view the diversification as a factor dependent on the fall of USD. We explicitly depict the supply-side maturity of the Euro zone (united debt) as a new, independent source of diversification that was not available before.
2.Fiscal Policy-Liquidity Nexus: The literature tends to separate the sovereign safe asset supply and the international role of currency. This paper bridges the gap by quantitatively associating the

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amount and condition of EU-level debt (e.g., NextGeneration EU) to the performance of the Euro as a reserve asset (Store of Value).

3.Geopolitical Weaponization: This is a step further in decoding qualitative discussion to quantify the impact of the geopolitical risk. With the help of the proxies such as the trade invoicing of non aligned countries and non-USD volume of payment systems, we will gauge acceleration of the diversification due to the strategic use of the USD.

3.1Research Objectives The research objectives are:

1.To build and approximate a strong econometric model to measure the effect of Eurozone institutional supply (unified debt) on the reserve share of Euro.

2.To test the relationship between the deployment of sanctions (geopolitical risk) and adoption of other payment systems such as CIPS.

3.To integrate the supply-side and demand-side results in re-defining the theoretical aspects of the present monetary period.

3.2Research Questions

The research is aimed at answering the following questions:

In what ways has the establishment of a common Eurozone safe asset (thought to be represented by issuing debt at the EU level) itself generated the diversification of central bank reserves across the world to the Euro?

•What is the impact of the escalated geopolitical weaponization of the USD on the strategic application of other payment and invoicing systems in non-aligned trade corridors?

Does the present systemic change rather represent a hysterical scramble out of the Dollar (the disintegration of the Dollar according to Triffin) or a controlled process of settling in to an orderly, strategic bipolar monetary system?

4.Methodology:

The systematic literature search and selection were conducted as follows.

In order to achieve an exhaustive and objective literature selection, Preferred Reporting Items of Systematic Reviews and Meta-Analyses (PRISMA) framework was used in this study. The final dataset was decided based on certain inclusion and exclusion criteria to make sure that the final dataset became relevant to the research objectives. A search strategy and identification depend on the search terms and keywords that are specified as follows: The literature identification was mainly done with the Scopus database that provided a preliminary pool of records of 1,096 records. To narrow down on this collection multi-stage filtration was implemented. First, 339 of the records were deleted; 237 were irrelevant and 102 records were excluded in an initial screening of titles and abstracts.

4.1 Screening Criteria

The rest of 757 records were screened formally. The screening was done on two major levels of exclusion:

Thematic Relevance: 92 records will be eliminated because they did not introduce critical elements of research, namely the Euro currency, financial market dynamics, and the analysis of the US Dollar.

Whereas, the number of records was reduced to 665, the number of deleted records was 165, as they were oriented on peripheral topics, including the dynamics between cryptocurrency (Bitcoin) prices and stock markets cointegration, which do not correspond to the key research questions of the study.

4.2 Quality Assessment and Eligibility.

The eligibility step entailed a narrow examination of the rest of the 500 reports. In order to sustain good academic standards, 279 records which did not meet the criteria of document type (book chapters, conference proceedings, and editorial notes) were as such excluded in favor of peer-reviewed journal articles.

The remaining 221 articles were lastly subjected to a full-text evaluation. At this phase, 132 records were filtered out. In spite of the fact that the articles discussed the appropriate terminology (e.g., bipolarity, financial markets, or currency dominance), it has been excluded based on lack of depth analysis or lack of data needed to aid the synthesis of the review.

4.4Final Study Inclusion

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After the carefully graded use of the above-mentioned criteria, 89 articles were chosen to be incorporated into the ultimate report. These researches form the fundamental data set on which data is extracted, synthesized qualitatively and thematic analysis of the extracted data carried out.

5.1The Managed Duopoly Model: USD and EUR Coexistence

The Managed Duopoly Model in the context of the international monetary system (IMS) argues against the common theoretical prediction of a unipolar-to-unipolar replacement (e.g., the USD being cleanly replaced by another single currency). Instead, it posits a stable bipolar (duopolistic) structure where the US Dollar (USD) and the Euro (EUR) strategically coexist as the primary global currencies, each dominating distinct, yet interconnected financial and trade spheres.

This model is fundamentally an application of geoeconomics and game theory, where the US and EU, despite being economic rivals, find a mutual, profit-maximising equilibrium by avoiding self destructive currency competition.

5.2Argument Against Unipolar-to-Unipolar Replacement

The transition to a managed duopoly is more probable than a unipolar shift for three main reasons:

- Rationale USD's Institutional Inertia EUR's Structural Network Effects
- Weaponization Risk Geopolitical Alignment
- The USD’s deep liquidity, established infrastructure (SWIFT, payment systems), and status as the dominant invoicing currency create massive switching costs for private actors (Gopinath,
- 2017).
- centric sanctions has spurred countries to diversify and seek alternatives to reduce The aggressive use of USD geopolitical risk (ECB, 2023).
- This leads to a fragmentation of the system, not a single replacement.
- The world is not structurally ready for a new single hegemon. The rise of geopolitical blocs (US-aligned, China-aligned, non-aligned) naturally supports a fragmentation of the financial system into aligned currency spheres (IMF, 2024).
- Capacity

The EUR possesses the requisite market depth and the backing of a large, developed economy (Eurozone), making it the only currency currently capable of challenging the USD's scale (ECB, 2023). The Euro offers a viable, politically stable alternative to countries seeking to reduce reliance on the US financial system without resorting to emerging market currencies. The system shifts from one pole (USD) t o two semi competing poles (USD and EUR), each catering t o its respective geopolitical sphere of influence.

5.3. The Equilibrium: USD/EUR Managed Duopoly.

This is a non-perfect competition equilibrium (not a perfect competition equilibrium as in the Bertrand model), and would result in the price war (i.e., currency depreciation race) that would disadvantage both.

A.Defining the Blocs

Managed Duopoly structure is characterized by financial and trade blocks of each of the currencies:

·USD Bloc (The Anchor): Controls liquidity financial markets, global commodities (e.g., oil, gold), and the trade/finance of allies/partners of the US (e.g. NATO, Five Eyes, some parts of Asia).

·EUR Bloc (The Hedge): Controls intra-Eurozone trade, has been the main currency through which the central banks and countries in the Western orbit have been diversified, and which is the main alternative reserve currency of the central banks and countries, depending on an alternative reserve asset.

trade volumes and financing requirements.

·Overlapping/Competitive Zone: Competitive markets and non-aligned countries (e.g. ASEAN, parts of Africa) where both currencies are competing to invoice and reserve, usually based on

The shift to a managed duopoly is a change in a unipolar monetary hegemony into a parted financial order. The international monetary system by breaking down the world economy into a USD-based core, a EUR-based hedge, and a contentious zone of overlap, the international monetary system attains a weak yet working balance. This system is efficient in balancing the urge of the US to remain a financial leader and the need of the EU to be a strategic autonomous actor with offering non-aligned actors an effective risk-diversification mechanism without leaving the Western-centric financial system. In the end, this two-hegemon setup implies that the future of world reserve currencies is not each of the two successful dispossession that the one currently in power is fully elbowed out, but a division of labour, which handles geopolitical tension by geographic and functional specialization.

B.The Strategic Payoff (Incentive to Management).

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$$\text{Profit}_{\text{USD}} + \text{Profit}_{\text{EUR}} \gg 0$$

The stability of the duopoly depends on the fact that both the US and the EU would have taken note of the following:

The combined profit (economic stability, geopolitical influence, seigniorage gains, and access to capital) is maximized when they cooperate to maintain the stability of the Western-centric IMS, which is their collective infrastructure, against external (non-USD/EUR) challengers.

$$\text{Tacit Cooperation (Managed Duopoly)} > \text{Price War (Bertrand)}$$

5.4 Geopolitical Prerequisites of Equilibrium:
The managed duopoly equilibrium assumes certain and high-order, political restraints to avoid falling into the abyss of destabilizing, zero-sum competition:

Geopolitical Condition	**Necessary Policy Implication**	**Rationale for Stability**
Limited Overt Financial Conflict	Policy Restraint: The US must limit the "weaponization" of dollar liquidity (e.g., avoiding secondary sanctions on EU firms). The EU must not overtly work to replace the USD in the US-aligned sphere.	Prevents one actor from destabilizing the entire system, which would ultimately harm the other by boosting non-Western alternatives (ECB, 2023).
Mutual Security Alignment	Shared Strategic Goals: The US and EU must maintain a strong, unified front on core security issues (e.g., NATO defense, core democratic values).	Financial trust is tied to geopolitical trust (Norrlöf, 2014). An attack on one partner's currency/economy is seen as an attack on the shared Western bloc.
EU's Financial Autonomy	ECB/EU Fiscal Coordination: The Eurozone must deepen its capital markets and central bank swap lines to handle its own dollar liquidity needs without being entirely reliant on the US Federal Reserve (ECB, 2023).	Reduces the incentive for the US to exploit dollar dependency, making the EU a credible, autonomous pole in the duopoly.
Acceptance of Fragmentation	Sovereign Non-Interference: Both powers must tolerate and manage the growth of regional/bilateral currency use in the Competitive Zone (e.g., RMB, local currency trade).	Trying to aggressively suppress all alternatives would force the non- aligned bloc into a single counter- system, threatening the stability of the duopoly.

6.The Competition of Strategic Currency Competition: IPE Game Theory Perspective.
The Strategic Currency Competition theory was founded on the International Political Economy (IPE) Game Theory and does not rely on purely economic factors (such as liquidity or GDP share) in an international currency choice, but rather on a political, regulatory, and strategic objective to undertake in the international monetary strategy. This will be critical in justifying the Managed Duopoly Model since non-economic costs and geopolitical gambit that hold the USD-EUR coexistence together will be included.

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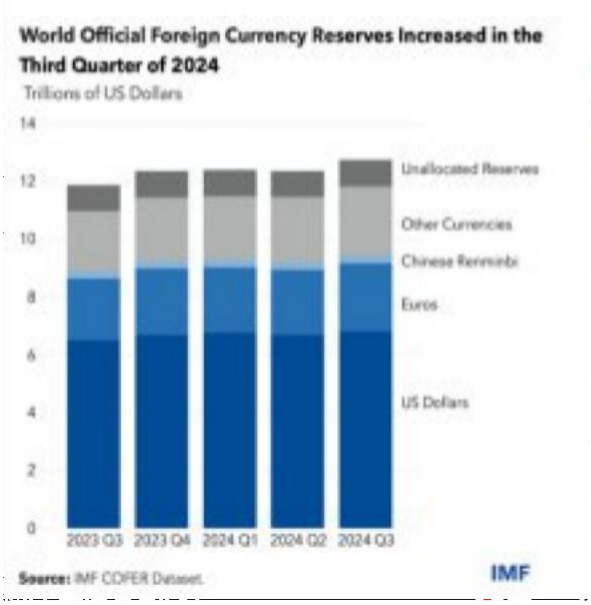
6.1.Money as a Geopolitical Instrument.

The IPE Game Theory does not just simply assume a dominant currency as an efficient medium of exchange but as a geopolitical resource employed by the issuer (the US) and a geostrategic weakness to users (including the EU).

Policy vs. Market Outcome: Currency status is a product of deliberate policy choice (i.e., US sanction policy, EU capital market integration) and not purely of market choice (i.e., corporate invoicing decisions) (Cohen, 2015).

Non-Economic Costs: The model makes a direct consideration of the cost of dependence which is the risk of the hegemon imposing political costs by means of using the control of its payment system and financial transactions (dollar-based sanctions) by its currency over other economies. This threat causes nations, including the EU, to seek to diversify their finances despite inefficiency in the economy into small measures.

Policy Moves as Game Moves: Actions like the US imposing sanctions on a third party, or the EU issuing unified Eurobonds, are modeled as deliberate, strategic moves in a multi-polar game designed to alter the payoff matrix for all players (Eichengreen, 2023).





Global reserve trends: Empirical Analysis (Q3 2023 -Q3 2024).

The historical development of the international monetary system during the last four quarters (Q3 2023 -Q3 2024) is an essential empirical point of departure to measure the currently fluctuating bipolarity between the US Dollar (USD) and the Euro (EUR). The main fluctuations and their structural effects are outlined as follows:

Continued Aggregate Reserve Growth: World official foreign exchange reserves were also experiencing an uninterrupted growth with an amount of about 12.73 trillions by the close of the quarter 3 of 2024. An escalated cautionary motive of central banks especially in the Emerging Market and Developing Economies (EMDEs)-they are trying to strengthen liquidity buffers in response to increase in geopolitical fragmentation and global interest rate volatilities.

Dollar Centrality Persistence: The US dollar continues to be the leading global anchor with its absolute holdings increasing in nominal terms. Although much has been said about de-dollarization, USD is the leading reserve asset, and it has majority of the distributed global reserves; about 58%. This is a validation of the high level of "lock-in" effect caused by the liquidity and depth of the US capital markets.

Incremental Diversification of Euro: Euro-reserved reserves showed a moderate and consistent positive growth trend, leveling off about 20 percent of the worldwide allotted reserves. This tendency implies the gradual diversification instead of the fast structural change. The Euro has been and continues to gain strength due to the existence of strong regional network externalities and as

the secondary global unit of account, but it suffers as a result of the absence of an integrated, Eurozone-wide safe asset.

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Marginal Growth in Nontraditional Currencies: The Japanese yen, British pound and Chinese renminbi (RMB) holdings gained marginally. It is worth noting that the RMB ratio has not decreased in any way, maintaining its position at around 2.3, which means that although its functions are growing in terms of digital efforts (CBDCs), the number of its functions as a primary reserve resource is still restrained by the restrictions of the capital account.

Valuation Effects and Volatility: It is possible to say that some of the volatility in the second half of 2024 can be explained by the effects of valuation. When the USD found itself in relative depreciation against the other major currencies, the dollar-measured value of non-USD holdings (EUR, JPY and Gold) went up automatically, which also added to the creation of the look of a diversifying reserve pool.

Hierarchy Strategic Stability: The data as a whole indicates that there was a time of strategic stability in the current reserve hierarchy. The shift to a more equalized bipolar or multipolar arrangement is still cautious and path-dependent with the further dominance of the US dollar and a slow, risk-averse increase in the increase in the global footprint of the Euro.

Integration Note: This figure can be empirically used to illustrate the discussion on the Safe Asset Paradox in Section 3.1.2, as it shows how the world demand of safety persists in keeping the system pegged to the USD despite the fact that fiscal vulnerability is driving the gradual transition to the Euro in the long-run.

6.2: Modeling the Multi-Polar Game

When the number of players grows, mutual dependence emerges, and reduced separability of the game can be assumed, leading to the occurrence of mixed strategies.<|human|>It is in this case that the multi polar game can be modeled with a large number of players, where a mutual dependence arises and the game is not separable, and therefore mixed strategies emerge.

Under the Managed Duopoly, IPE game includes the US (USD), the EU (EUR) and the outsiders (e.g., China/RMB). The stability of the duopoly will depend on how the USD and EUR will decide on whether to cooperate or compete.

Strategic Action (Move)	**Actor**	**Strategic Goal/Impact**	**Relevance to Managed Duopoly**
Financial Weaponization	USD	Imposes cost on targeted states; increases the risk premium(cost of dependence) for all other users.	Drives diversification demand from the periphery toward the EUR.
Unified Debt Issuance	EUR	Increases the supply of safe, liquid assets in EUR; builds a credible alternative store of value.	Increases the credibility of the EUR as a reserve asset, making it a viable co anchor.
Regulation (e.g., GDPR)	EUR	Extends EU regulatory authority globally; creates non dollar-centric financial standards.	Builds independent spheres of influence where EUR-centric rules dominate.
Limiting Sanctions	USD	Reduces the cost of dependence for allies (EU); signals reliability of the USD-bloc.	Stabilizes the duopoly by preventing the EU from defecting entirely due to political risk.

6.3. The Stable Equilibrium: Risk Management by Cooperation:

The IPE point of view underlines that the Managed Duopoly Equilibrium is a strategically selected situation that is supported by fear of a worse option (the conflict scenario).

Threat of Bilateral Defection: In case the US exercises excess financial power (Deflection), it pushes the EU and other into competing systems (RMB/bilateral trade), which will destroy the whole Western financial fabric. In the event that the EU conspicuously attacks the USD (Defection), the economy will be destabilized and the US may retaliate against the EU through regulation, or trade retaliation.

The Nash Equilibrium is the Cooperation (Manage) too, as it is the decision that is strategic in overcoming the non-economic cost of dependence on the EU (USD restrains its aggressive weaponization) and in maintaining

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the basic stability of the system on the US side (EUR assists in absorbing diversification demand that would otherwise be directed to the RMB).

The Final Balance: This state of affairs is a fixed share of power: USD retains the pre-eminence in the world financial market and the massive turnover, whereas EUR takes over the power in its own region and serves as the politically risk-free, strategically independent hedge currency in the Western sphere. The system thus is not competing but in a strategic way, it is interdependent (Cohen, 2015).

7.The Dissection of Euro Ascension and Erosion of the US Dollar Supremacy.

The idea of the euro emerging as the industry leader to deny the US dollar international hegemony, or major-scale de-dollarization, is not a new topic of financial discourse, with geopolitical developments
such as sanctions and trade friction intensifying the message in many cases. Nevertheless, according to the recent statistics presented by credible organizations such as the IMF, ECB, Federal Reserve, BIS, and SWIFT, the US dollar continues to dominate on most of major indicators of international currency utilization. The euro is in a stable second place having a good regional impact yet no indication of wide ascension. Any visibly observed loss of the dollar share can be explained by effect of exchange rate valuation as opposed to actual reallocation of the dollar.

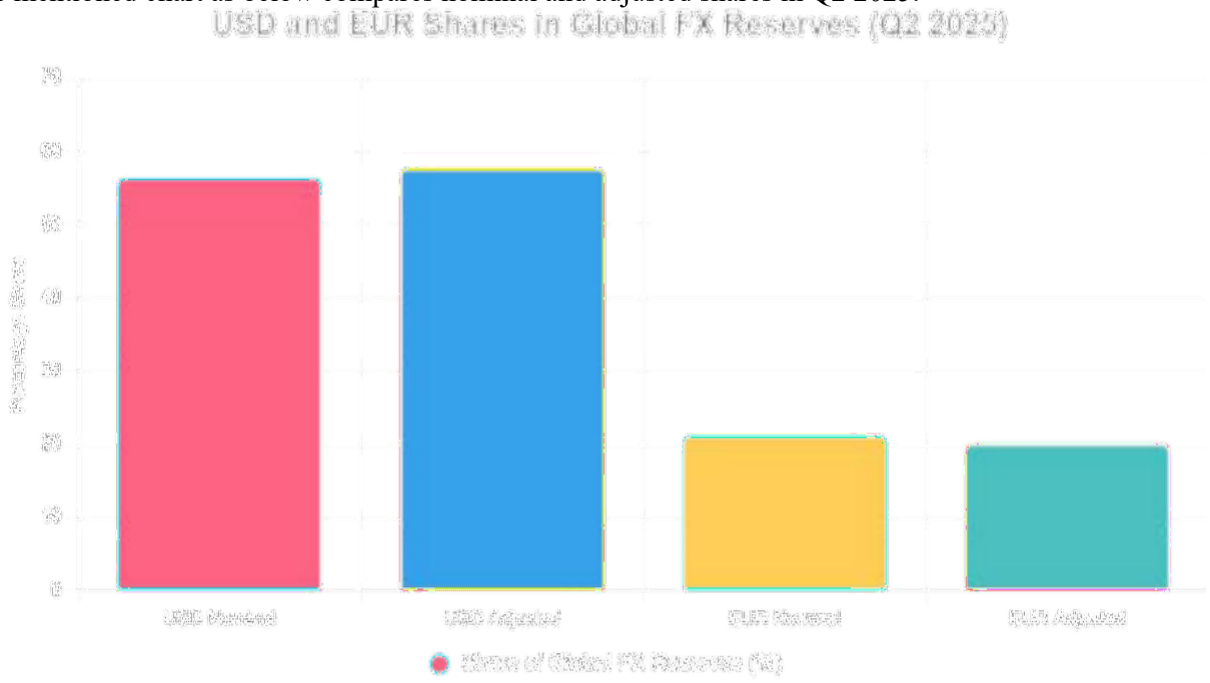
7.1Foreign Exchange Reserves

Currency dominance is one of the fundamental indicators of global official foreign exchange reserves. The IMF data show that the Currency Composition of Official Foreign Exchange Reserves (COFER) is as follows:
At current nominal USD share, which is 56.32 at the end of Q2 2025 (last available), this is reduced by Q1 2025 (57.79).However, when this is adjusted by the exchange rate changes (which are mostly the depreciation of the USD, with the DXY index falling more than 10 percent in H1 2025), the USD share remained unchanged at 57.67.

•Nominal share of the euro increased by 21.13 per cent but on an adjusted basis dropped by 19.96 per cent.

In 2024, the USD was 58% and the euro 20% with some low diversification into non traditional currencies (e.g., AUD, CAD), and gold.

The mentioned chart as below compares nominal and adjusted shares in Q2 2025:



Trend: The USD's share has gradually declined from ~70% in the early 2000s to ~58% over the past decade, but it has been stable since 2022 with no major shifts post-geopolitical events.

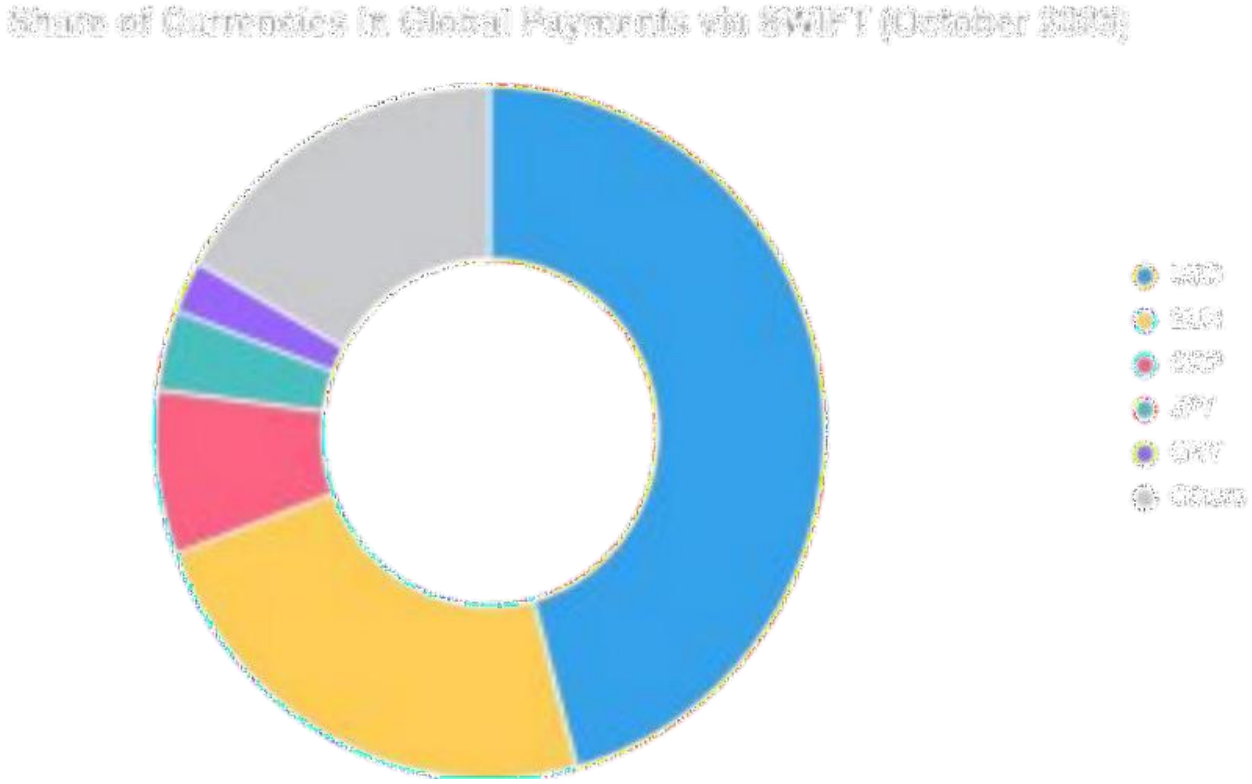
7.2International Payments

SWIFT data tracks currency use in cross-border payments. As of October 2025: · USD: 46.71%

·EUR: 23.98%
·GBP: 7.82%
·JPY: 3.83%
·CNY: 2.47%

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(Note: These figures reflect international payments; including intra-eurozone transactions typically boosts the euro's share to ~30-35%.)



Trend: USD share around 45-50% in recent years, stable or slightly rising.

7.3Foreign Exchange Turnover

The turnover in global FX in the BIS Triennial Survey (April 2025 data) was 9.6 trillion a day. It was USD (stable over decades) that was involved in approximately 88 percent of the transactions, and the euro was at approximately 31 percent. Trade Invoicing: More than 80 percent of international trade invoicing is combined with USD and EUR (2023 data, stable). They each have their share of about 40 percent in the world, but the USD is a stronger performer outside Europe (74-96 percent in Asia-Pacific, Americas, and rest of world), whereas the euro is the top performer regionally (~52 percent of extra-EU exports in 2024).

International Loans and Debts.

•Debt issuance: USD ~60%, EUR ~26% Banking claims/liabilities: USD 55-60 EUR -20%

By the end of 2025, statistical data indicate that there will be no major decline in the US dollar dominance and no significant rise of the euro. Domination by the dollar continues in terms of reserves (~58% adjusted), payments (~47%), FX turnover (88%), invoicing (040-50% worldwide) and debt/loans (55-60%). The second place (~20% reserves, ~24% payments, regional strength) is occupied by the euro, which, however, is not growing globally but is stable. Valuation effects caused by weakness of the USD cause minor changes in the reserves and not structural changes. The trend of diversification is more inclined to gold and small currency than the euro or other substitute currencies such as the renminbi (2-3%). There is no support of the data to claim rapid de-dollarization.

7.4The Evolution of the U.S. Dollar Index (DXY), 1973–2025: Long-Run Cycles, Peaks, and Mean Reversion:

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The chart depicts that the U.S. Dollar Index (DXY) was cycling around its initial 1973 base of 100, with a series of two major bull trends in the mid-1980s and the early 2000s and smaller ones around 20162017 and 2022, then taking a partial dip to 2025.

The DXY is an index of the performance of the U.S. dollar against a fixed basket of six major currencies (euro, Japanese yen, British pound, Canadian dollar, Swedish krona, Swiss franc), relative to a 100 in March 1973; a reading above 100 indicates that the dollar is stronger than it was in 1973 and a reading below 100 indicates that the dollar is weaker than it was in 1973.

Since the basket is very skewed to Europe, the index does not represent the performance of the dollar against all U.S. trade partners, but primarily the advanced economy currencies.

There is a long-run structure of the series; During the early 1970s to the early 1980s, the index fluctuated primarily between approximately 85 and 110, as markets adapted to the termination of Bretton Woods and the high inflation in the United States with an implication of a volatile, although not structurally extreme dollar.

The series reverts to the high-90s to low-100s in all the 1973-2025 window it is reversion of long-term averages of DXY around 98-99.

First major peak: early–mid 1980s: The sudden rise to around 160 in 19841985 relates to the very tight Federal Reserve policy of Volcker and to the high U.S. real interest rates which brought capital to global markets and sent the dollar to all time highs.

The negative development that followed the 1985 Plaza Accord is the G5 action to undermine the dollar and the U.S. trade deficits, and the index returned to the 90-100 range by the end of 1980s.

Second major peak: early 2000s: Between mid-1990s and approximately 2002, the index turned upward once more with the highest point of about 120 as the U.S. enjoyed the tech-boom, good relatively high yields, and safe-haven inflows following the Asian and Russian crises.

The case of the long-term downward trend until 2007- 2008 when DXY hit the low 70s is linked with expanding U.S. current-account deficits, relaxed monetary policy, and the lead-up to the international financial crisis.

The crisis: regime and recent peaks: Since 2008, there have been swings of between 75 and 105 index which show periods of risk-off dollar demand and recovery and easing by the Fed around the globe. Significant peaks are observed in 20162017 and then 2022 over 110 each, which is associated with anticipation of normal Fed rates, and, subsequently, aggressive tightening and safe-haven flows during the pandemic inflation shock and the war in Russia and Ukraine.

Position as of late 2025:

Due to the repercussions of 2022, the index is moving beneath its high of 2022 and is traversing around the psychological 100 range, which corresponds to its long-term mean and closely matches the indicators of mid-2025 (around 98).

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This level implies the dollar neither is at a historically high, or at a historically low, but it is at some multi-decade equilibrium following a tightening process and somewhat after the loss of safe-haven premiums of the past.

8.1Limitations of the Study

Although the research contributes to the development of a new theoretical framework, it has some drawbacks limiting the robustness of its arguments and pointing to the need to practice caution during the interpretation.

Empirical Scope and Data Limitations: Data analysis utilizes aggregate data on IMF COFER, SWIFT and BIS sources which contains high level shares but not country level granular data of reserve allocation motives or invoicing decisions. The actions of individual central banks are in the dark, which does not allow directly attributing diversification to certain supply-side (EU unified debt) or demand
side (sanctions) drivers. The most recent COFER data (Q2/Q3 2025) as of December 2025 is of continued stability in USD shares after adjusting to valuation effects, no significant acceleration in euro holdings than regional norms.

Lack of Full Econometric Testing: The proposed panel data regression equation (i.e. euro reserve shares against the proxies of EU-level debt issuance such as NextGenerationEU volumes) is just a concept. This does not actually estimate because of data lags and more distinctions geopolitical risk indicators are required. In the same way, the quantitative proxies of payment systems alternatives (CIPS volume, INSTEX usage) indicate a modest increase in 2025 but peripheral to the dominance of SWIFT.

Time Horizon and Causality Challenges: The stability in USD measures (e.g. 58 percent adjusted reserves, 48 percent SWIFT payment, 88 percent FX turnover participation) could be due to inertia and not the lack of structural change. Long-term shifts may occur over decades, and the short-term oscillations (e.g., DXY returning to about 98-100 in the end of 2025) caused by valuation or policy cycles would make causation more challenging. Geopolitical risk aversion can be missed in aggregate data due to diversification by non-aligned actors in small steps without an instant aggregate effect.

Concentrate on USD-EUR Dyad: The managed duopoly model gives a high priority to Western currencies, which may underestimate the contribution of new alternatives (e.g., RMB at about 3 percent in payments, increasing CIPS share) or non-currency assets (gold, Bitcoin). As it grows (planned debt issuance of between 70-90 billion in H2 2025-H1 2026), EU debt issuance has not yet been scaled up to supply of transformative quantities of safe assets.

8.2Conclusion

The monetary order in the world is closely tied to USD dominance by the end of 2025, and the empirical evidence of foreign exchange reserves (~58% USD adjusted share), cross-border payments (~48% through SWIFT), FX turnover (88% USD participation), and trade invoicing (~40-50% global) points to overwhelming stability in the face of fiscal pressures and geopolitical tensions. The euro stands at a good but immobile second position (c. 20% reserves, c. 24-30% payments, including intra-eurozone) fortified by regional depth and institutional changes, though there is nothing in it that suggests any general ascendancy or rebalancing of the system.

This consistency confronts the de-dollarization narratives and confirms the main hypothesis of the paper in a somewhat delicate manner: the system is developing into a managed USD-Euro system of bipolarity, not through an erosive process but through the strategy of coexistence. The needed precondition of the euro as a safe asset lies in the supply-side progress (EU united debt issuance, deepening capital market) and the demand-side accelerants (USD weaponization threats) stimulate the controlled diversification in Western orbit. Relying on the contribution of the IPE game theory, the Managed Duopoly Model describes the equilibrium is a tacitly coordinated game where the benefits of the US and EU over external opponents are maximized, not a zero-sum game.

The fact that the DXY is mean-reverting (with the means back to 98-100 in December 2025, past the 2022 peak) also demonstrates that the DXY is resilient to cyclical effects, not structural decays. Finally, the transition is controlled and staged: USD keeps its anchor position in world finance and in trading commodities, the euro is an insurance policy and a geopolitical counter, and fragmentation takes on peripheral stress without putting pressure on the center. There is no evidence to support claims of impending dollar meltdown, and to the contrary, the evidence indicates that the duopoly remains stable and interdependent, perpetuating Western financial primacy.

8.3Future Research Agenda

The work done in the future should focus on empirical validation and expansion to reflect changing dynamics:

1.Econometric Implementation: Estimate the proposed panel regression with updated COFER data (after December 2025 releases) and improved proxies of the EU debt volume (e.g. cumulative NextGenerationEU issuance, possible new common instruments). Add interaction terms of episode of sanctions to examine acceleration effects.
2.Granular Geopolitical Analysis: Study nation-level diversification (e.g. BRICS, ASEAN reserves) through either disclosed data or case studies, and measure the effects of particular events (e.g., expanded sanctions) on invoicing changes or CIPS/INSTEX uptake.
3.Monitoring and Scenarios (Long-term): Monitor post-2025, such as the progress of the capital market union of the EU and possible permanent safe-asset mechanisms. Simulate using agent-based or Nash equilibrium models in model scenarios under different geopolitical conditions (e.g. US-EU alignment strains).
4.Expanding the Inclusion of Assets: Add non-traditional hedges (gold, cryptocurrencies) and regional systems to evaluate the risks of spillovers to the duopoly.

8.4Contribution of the Study

This article contributes to the international currency dynamics literature three major contributions:
1.Theoretical Innovation: It proposes the "Managed Duopoly Model" as a game-theoretic model of USD-EUR coexistence as an alternative to unipolar replacement paradigms, based on collusive equilibrium motivated by mutual security alignment, network inertia and risk management. This is a combination of geoeconomics and traditional monetary theory.
2.Integrated Supply-Demand Analysis: In contrast to other earlier studies that considered USD decline or euro constraints in isolation, it explicitly connects supply-side institutional maturity (EU-level safe assets) as a precondition with demand-side geopolitical premiums (sanctions-driven aversion) as the accelerant- filling in the identified gaps in the nexus of fiscal and liquidity.
3.Relevance to Policy: In making the shift sound like a shift in bipolarity, instead of Triffin esque decay, it provides valuable policy implications: non-aggressive weaponization of the USD and increased autonomy of the EU can put the system on a stable footing, whereas open competition will increase the appeal of non-Western alternatives.

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