Currency Wars in the Digital Age: CBDCs, Stablecoins and Mr Trump

Dr Ousmène Jacques Mandeng
Senior Advisor, Accenture; Visiting Fellow, School of Public Policy, LSE

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Dear students and colleagues,

I'm delighted for the opportunity to speak to you today. I have been working on digital monies for some time and have been following international monetary developments for far longer. Recent developments driven in large part by the U.S. administration seem to indicate that the foundations of the international monetary system are increasingly in doubt. During the IMF Spring Meetings in April, IMF Chief Economist Pierre-Olivier Gourinchas stressed that the "global economic system that has been operating for the last 80 years has been reset."

In this seminar, I will try to offer you a new perspective on the international monetary dimension of the system reset. There is a new type of currency war looming which is about shifting the relative attractiveness of currencies in international payments. I will provide a brief overview of what the system is about and then focus on how digital monies may change it and why. The innovation with digital monies is not how payments are being made but how they are being processed and how thereby they may change the incentives for holding currencies.

The new approach to payment processing rests largely on blockchain and other distributed ledger technology (DLT) platforms as a new financial market infrastructure for digital monies. Most monies are of course already digital. But I will call digital monies only those issued on blockchain. Within the context of payments, you could think of blockchain as being a payment system for transferring and recording funds.

While most may associate with blockchain cryptocurrencies like bitcoin that exhibit functionalities similar to money, I will refer mostly to money in a narrow sense of being liabilities of the central bank and other financial system entities. It is therefore about putting the existing financial system on blockchain.

The motivation therefor rests largely on the assumption that changes in payment processing—the microfoundations—offer new possibilities to conduct payments efficiently and help overcome structural barriers—the macrofoundations—including market liquidity, breadth of financial instruments, legal provisions that have been considered essential for effective international payments. Changes in the microfoundations of payments can alter the relevance of the macrofoundations. Therein lies the importance of digital monies in

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shifting the relative attractiveness of currencies towards a more diversified international payments landscape.

Dollar dominance

The starting point for rethinking payments is the current international monetary system. It is the framework of rules, institutions and practices that govern how countries exchange currencies, settle cross-border and other international payments and manage exchange rates and capital flows. It facilitates global trade and investment by enabling the conversion of one currency into another. Think of currencies as financial system liabilities denominated in a national currency comprising mostly bank deposits used to conduct credit transfers and other payments.

The system relies heavily on a very narrow range of national currencies, predominantly the U.S. dollar. Currencies are exchanged at a given exchange rate denoting the price of one currency in the price of another. Sufficient liquidity is needed in either currency for an exchange. Where there is insufficient liquidity, the exchange rate will adjust to reflect the relative scarcity of one currency.

The dollar has been the dominant currency since World War II. Many countries consider this increasingly as a problem. It is due at least in part to recent measures by the U.S. administration that have raised doubts about the U.S. commitment to act in accordance with the rules of the system.

The international economy risks sliding into a new type of currency wars. Currency wars have normally referred to the devaluation of currencies to help countries gain external competitiveness. This time it is about whose currency is used to settle international payments.

In January, U.S. President Donald Trump reiterated a threat to bar BRICS countries from dealing with the U.S. if they were to issue a common currency or back other currencies to rival the dollar.[1] The E.U. Commission has for some time urged to enhance the international role of the euro to bestow the E.U. with greater "strategic autonomy."[2] In May, ECB President Christine Lagarde pointed to the system as fracturing and called into question the dominant role of the U.S. dollar.[3]

The main motivation for reducing reliance on a dominant currency is that dollar supply may not be readily aligned with dollar demand. Countries may want to trade in currencies that respond to their monetary conditions and not those of a third country. The dollar is the national currency of the U.S. and is being managed largely to support U.S. and not international monetary policy objectives.

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[1] Brazil, Russia, India, China and South Africa plus Egypt, Ethiopia, Iran, the United Arab Emirates and Indonesia. In an X post of 30 November 2024 (and a similar post on Truth Social of 31 January 2025) he threatened: "We require a commitment from these Countries [BRICS] that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs, and should expect to say goodbye to selling into the wonderful U.S. Economy."

[2] Commission takes further steps to foster the openness, strength and resilience of Europe's economic and financial system, 19 January 2021, press release.

[3] Earning influence: lessons from the history of international currencies, Christine Lagarde, speech, 26 May 2025.

The dollar became the dominant currency with the Bretton Woods system. The system emerged with the agreement to establish the International Monetary Fund (IMF) at the United National Monetary and Financial Conference at Bretton Woods, NH in July 1944. It provided for all currencies to be fixed to the dollar at so-called par values and implied that external obligations could be settled either in dollars or in gold. The U.S. dollar itself was fixed to gold at US$35 an ounce as an external anchor to the system. At the time, the New York Times wrote, "the American dollar thus obtains international recognition on paper as in fact, as the world currency […]."[4] The provisions put the dollar as the centre of international transactions and helped consolidate its role as the international currency.

The dollar's dominance in international payments has undoubtedly offered numerous advantages. A common currency exhibits important network effects. At the same time, it has naturally held back developments of other currencies and produced a significant concentration in payments. While not all currencies will likely be serving as effective international payment instruments, relying on a single currency bears undue risks.

"Exorbitant privilege"

The international role of the dollar, many have argued, bestows the U.S. with an "exorbitant privilege."[5] It is due to the assertion that it produces constant demand for dollar-denominated debt. During the 1960s French economist Jacques Rueff described it as "deficit without tears" by which countries whose currencies are widely used internationally can issue more debt and hence do not incur a balance of payments constraint. Some also see in the international role of the dollar a burden as it has produced continued overvaluation undermining U.S. competitiveness.[6]

The dollar's dominance has many dimensions. The most critical, while some may not agree, is its role in the foreign exchange market. The foreign exchange market is the largest financial market with a daily average turnover of about US$7.5 trillion (on a net-net basis). The size of the market implies that foreign exchange is part directly or indirectly of most economic activities.

The dollar represents one leg in about 9 out of 10 transactions.[7] It implies that to participate in the foreign exchange, economic agents need dollars with the dollars being mostly held as dollar-denominated bank balances and fixed-income securities.

[4] New York Times, Fund pact gives veto on exchange rate to the United States, Britain and Russia, 23 July 1944.
[5] The term "exorbitant privilege" appeared in the French newspaper Le Figaro of 16 February 1965 in an article by Raymond Aron who attributed it to French Finance Minister Giscard d'Estaing. The provenance remains disputed. There seems to be more solid evidence to trace it to French President Charles de Gaulle who during a press conference on 4 February 1965 used the terms "excessive privilege" (see e.g. The Times, 5 February 1965).
[6] See e.g. Stephen Miran, A user's guide to restructuring the global trading system, November 2024. Miran refers to the need of a new "currency accord" coined "Mar-a-Lago Accord."
[7] See e.g. BIS Triennial Survey 2022.

Payments arrangements

International payments arrangements and are very different from national payments. While national entities are typically connected with one another through the large value payment system producing a common platform for fund transfers, no such systems exist in international payments.[8] International payments rely on the relationships provided by correspondent banks that maintain accounts with foreign banks. Active correspondent banking corridors continue to decline. There are therefore few correspondent banks and hence few channels for conducting international payments.

Existing payment arrangements for securities and foreign exchange settlement rely significantly on clearing and netting arrangement to produce efficient settlement conditions. The high concentration often found in financial markets where few institutions represent a large proportion of market turnover allows to reduce actual exposures through netting. It produces very large trading volumes due to positive network effects but also represents important systemic risks amid the possibility of failure of one counterparty and high barriers of entry given the disincentives of dealing with a greater number of counterparties. In some markets, the adoption of central counterparties and central clearing has been trying to reduce inter-institutional exposures to mitigate those risks.

The choice of using certain currencies is often considered to be driven by macrofoundations, that is stability, market depth, geopolitical and security dominance, legal certainty. The dollar is widely used because it is relatively stable relative to most common numeraires compared with most other currencies.

Dollar-denominated markets offer a unique variety of instruments and liquidity that facilitates holding dollar-denominated assets. However, the advantages are not always clear.[9] The geopolitical role of the U.S. and implicit or explicit security umbrella it provides may motivate some to deal predominantly in dollars but it seems a less convincing argument.[10] The legal certainty the U.S. provides seems a strong argument to give confidence to U.S. dollar holders that their claims can be enforced but this does normally not hold for Eurodollar instruments and concerns only instruments issued under U.S. laws.

Blockchain

Blockchains can serve as backend infrastructures for processing and recording transactions in digital monies (tokens). They function as a ledger where each transaction—signed using private keys and linked to a public address—is validated by a network of nodes updating the ledger to reassign token ownership to the public address of the beneficiary.

The blockchain offers a neutral and tamper-evident fund transfer system. It does not rely on central parties to validate and record transactions but instead rests on a consensus

[8] There are some incipient alternative approaches including the mBridge platform among China, Hong Kong SAR, Saudi Arabia, Thailand and UAE; and the BUNA platform operated by the Arab Monetary Fund.
[9] While the U.S. treasury market is considered to be the most liquid bond market, 60-70 percent of liquidity is concentrated in the current treasury issues (on-the-run) that represent only about 5 percent of total marketable U.S. treasury securities outstanding, that is, a relatively small stock of securities can produce large-scale liquidity conditions.
[10] China is one of the largest foreign holders of U.S. securities but surely not a beneficiary of the U.S. security umbrella.

mechanism. It thereby externalises transaction control and governance. The neutrality implies that the terms and conditions of the network are not unduly biased towards any party.

Blockchains offer new functionalities. They include programmability facilitating transaction processing typically via smart contracts and composability—combining different tokens and blockchain components—enhancing the scope of token interactions including of different token types like money and security tokens.

Blockchains can process payments instantly.[11] Programmability and composability facilitate adoption of atomic exchanges where both legs of the transaction need to succeed or none does, to perform payment versus payment and delivery versus payment transactions. This enables e.g. an exchange of currency for currency to settle foreign exchange and security for currency to settle a bond purchase.

A blockchain is an infrastructure that is readily accessible. It reduces costs and leverages existing capabilities. Similar to the internet, to launch a website, no one builds his or her own internet.

Blockchains offer exposure to the continuous developments and innovations of the network underlying the blockchain. The notion of proprietary blockchains, while desirable for certain use cases, seems contrary to the main motivation for blockchain. Blockchain participation does not mean not being able to exercise needed controls. The token standard and wallets enable sufficient controls to ensure transactions are performed only with the intended parties.

Payment frictions are often not technical and blockchains will not be able to eliminate other barriers many of which impose considerable obstacles in payments. Existing regulatory and prudential provisions in particular in relation to know-your-customer, anti-money-laundering and sanctions remain. However, where existing relationships exist and where blockchain facilitates more direct relationships, those frictions can more easily be overcome.

Digital monies

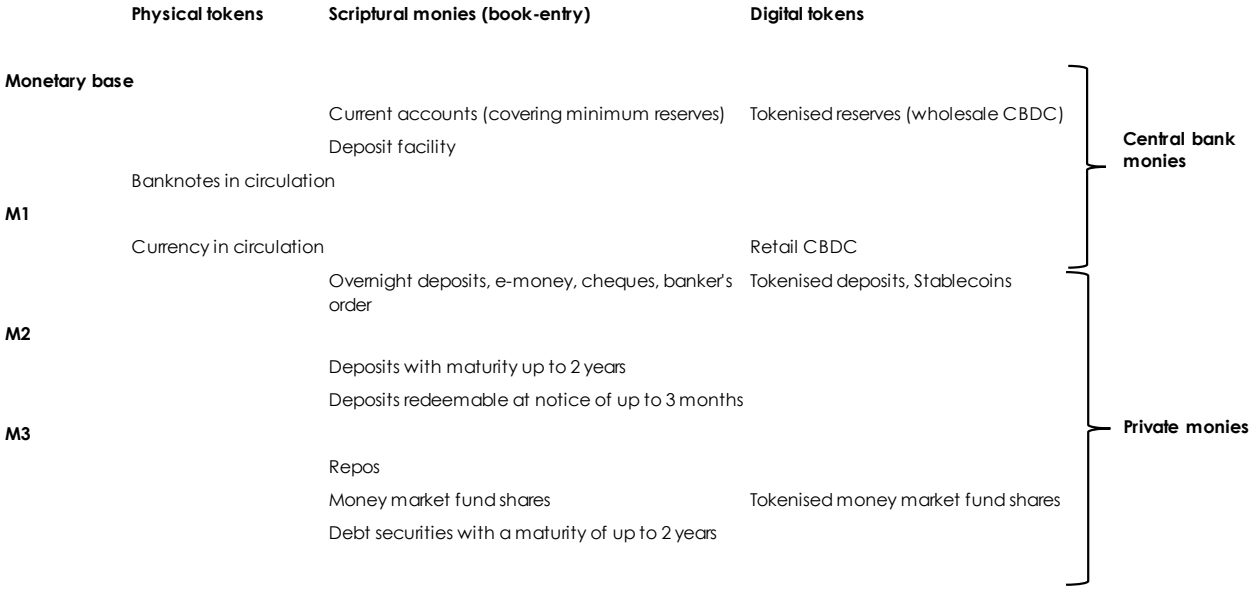
Digital monies are about changing the microfoundations of payments through the blockchain enabling new payments arrangements, new types of transactions that may not be feasible or economical with existing systems.

Digital monies comprise central bank digital currencies (CBDC) or tokenised reserves, tokenised deposits, tokenised money market fund shares, electronic money (e-money) or stablecoins, and possibly other instruments. The main differences arise with the issuer and where monies uphold a convertibility commitment, the mechanism to ensure convertibility. Digital monies are economically similar to conventional monies (Figure).

[11] Instant refers here to a blockchain forming a new block within a very short period of time of no more than 10 secondss. Most blockchains do offer block times not consistent with instant processing.

Central bank money as digital tokens complement cash and reserves on blockchain-enabled financial market infrastructures. It is the same dollar, euro, peso, rand, real or won representing a direct liability of the central bank to serve as payment mediums on blockchains.

Figure. Monies[12]



The digital euro represents a key digital money development to make available central bank money in a digital format to the general public. It remains unclear if the underlying backend infrastructure will be a blockchain. The project mBridge constituting a blockchain-enabled platform using CBDC among participant financial institutions (wholesale CBDC or tokenised reserves) constitutes the most advanced cross-border CBDC project offering a new architecture for using central bank money in outright transfers and exchanges between home and foreign institutions.

Tokenised deposits are bank deposits issued on blockchain and represent direct liabilities of the bank. Tokenised deposits, JP Morgan's Kynexis is one example, should be fully fungible with conventional deposits and all aspects related to ensure the convertibility of tokenised deposits are similar. A possible extension to tokenised deposits is the treatment as cheques to be transferrable to clients outside the issuing bank. The convertibility of tokenised deposits like conventional deposits rests on the strength of the bank's balance sheet.

Tokenised money market fund shares are securities that can serve as payment instruments. The Franklin Templeton onchain government money fund is a money market fund issuing tokenised money market fund shares. Both can be used in transactions economically similar to payments. The convertibility of the shares is normally anchored in a claim on the underlying reserve assets.

[12] Modelled on the Eurosystem's definitions of monetary aggregates.

Stablecoins are new instruments by designation but economically similar to electronic money. The PayPal stablecoin is one example that can be used to settle PayPal initiated transactions.[13] Other important stablecoins are of course Tether and USDC. Stablecoins to be scalable will require similar to tokenised deposits a clearing infrastructure to operate across a wide range of monies. The convertibility is typically anchored in a par commitment backed by a high-grade reserve.

Emerging regulation for stablecoins seems to bestow them with actual bearer instrument properties. It implies that stablecoins can be transferred to parties that are not clients of the stablecoin issuer similar to the transfer of a banknote or a reassigned cheque. It represents a considerable advantage over other monies that are normally strictly limited to meeting the know-your-customer and anti-money-laundering requirements of the issuer. The bearer character makes stablecoins attractive in particular in cross-border transactions.

Stablecoins are amongst the most prolific digital monies. Transaction volumes of stablecoins have increased significantly with average monthly volumes of around US$700 billion.[14] While these volumes are large and comparable to volumes in credit card transactions, they are small compared to large value payments. Monthly payment volumes in the U.S. large value payment system Fedwire and in the Eurosystem large value payment system T2 are US$91,000 billion and US$35,000 billion, respectively.[15]

Changing the relative attractiveness of currencies

Digital monies exhibit properties that may shift the relative attractiveness of currencies. The efficiency gains produced by digital monies should make it more attractive to using them to settle payments. The more attractive it is to pay in digital monies, the more attractive it will be to denominate assets in the currency of that money. While the microfoundations may not substitute for the macrofoundations, the assumption here is they can significantly compensate for some macro shortfalls.

The neutral and tamper-evident nature of blockchains implies that different parties may find it easier to agree on using a common network for processing payments. The immutability of the transaction record and its auditability gives confidence that transactions cannot be manipulated. While this may not be relevant in a national setting, it could be highly relevant in an international setting.

The composability as an inherent feature of blockchain stands in contrast to the typical single-application and single-instrument layouts of conventional financial systems. The possible co-existence of asset and money tokens facilitates token exchanges. Where tokens are issued on different blockchains, some inter-operability between blockchains would have to be established. There are several technical solutions to ensure exchanges can be performed atomically across blockchains.

[13] The PayPal stablecoin is a Paxos stablecoin and does not represent a claim on PayPal.
[14] See e.g. Visa.
[15] See e.g. Federal Reserve Bank of New York and ECB.

The instant and atomic exchanges should produce significant efficiency gains. Transactions become settlement-risk-free and in combination with a high-grade settlement instrument, completely risk-free.

Financial transactions like securities and foreign exchange settlement implies multiple exposures to the credit risk of the counterparty and the principal risk of a failed delivery. Banks normally set aside large amounts of regulatory capital and liquidity buffers to meet credit and delivery and other settlement related risks. The risk-free settlement that can be established through blockchain-enabled transactions could therefore produce important regulatory capital and liquidity savings. Therein lies the business case for digital monies.

Outlook

The outlook for monies will likely be a more varied landscape by issuers, platforms and geographies. New monies may extend the boundaries of money and use cases. Equipping monies with new functionalities will likely determine their relative successes.

Blockchain is expected to play an increasing role. Actual adoption will in large part depend on whether the benefits it provides are material enough net of migration costs. The network effects in payments also imply that adoption will likely have to be in bulk. Some markets may be able to realise network effects faster where concentration is very high.

Blockchain will be inviting a rethink how financial market participants should approach financial market infrastructures. Consideration should be given to joining existing networks rather than seeking to build own ones. Therein lies the complementarity with existing systems and opportunity to expand installed capacities.

The adoption of new monies will only work if a seamless integration with existing system is provided. This matters to enhance usability but is also essential to avoid fragmentation of the payment systems. Digital monies should be readily convertible with conventional monies and not trapped in a particular system to ensure money market integrity is being preserved.

The integration of digital monies should result in more diversified international payments. If digital monies can lower the barriers of entry to international payments as they require less capital and liquidity to produce needed settlement efficiencies, there is chance of smaller currencies in particular to play a greater role in international payments.

While Mr Trump may seek to limit currency diversification in international payments, the conditions therefor may never have been more favourable. If smaller currencies can support international payments, it will likely result in more incentives for international exchange.

Friedrich Hayek when at the LSE postulated the advantages of currency competition as a framework for stability. The adoption of digital monies may establish conditions highly conducive towards attaining that goal.

Thank you very much for your attention