Money and Sovereignty

Central Bank of Chile Centennial Conference

Gita Gopinath, Harvard University, Nov 22 2025

Money and Sovereignty

- **Domestic monetary regime is a sovereign choice**
  - choose whether to peg/dollarize/float (inflation targeting)
  - accompanying institutions, rules, laws to support it
- **International monetary regime has implications for domestic monetary regime.**
  - original sin (Eichengreen and Hausmann, 1999), fear of floating (Calvo and Reinhart, 2002), dilemma not trilemma (Rey, 2015)
- **Rising geopolitical risks and crypto money pose new challenges.**

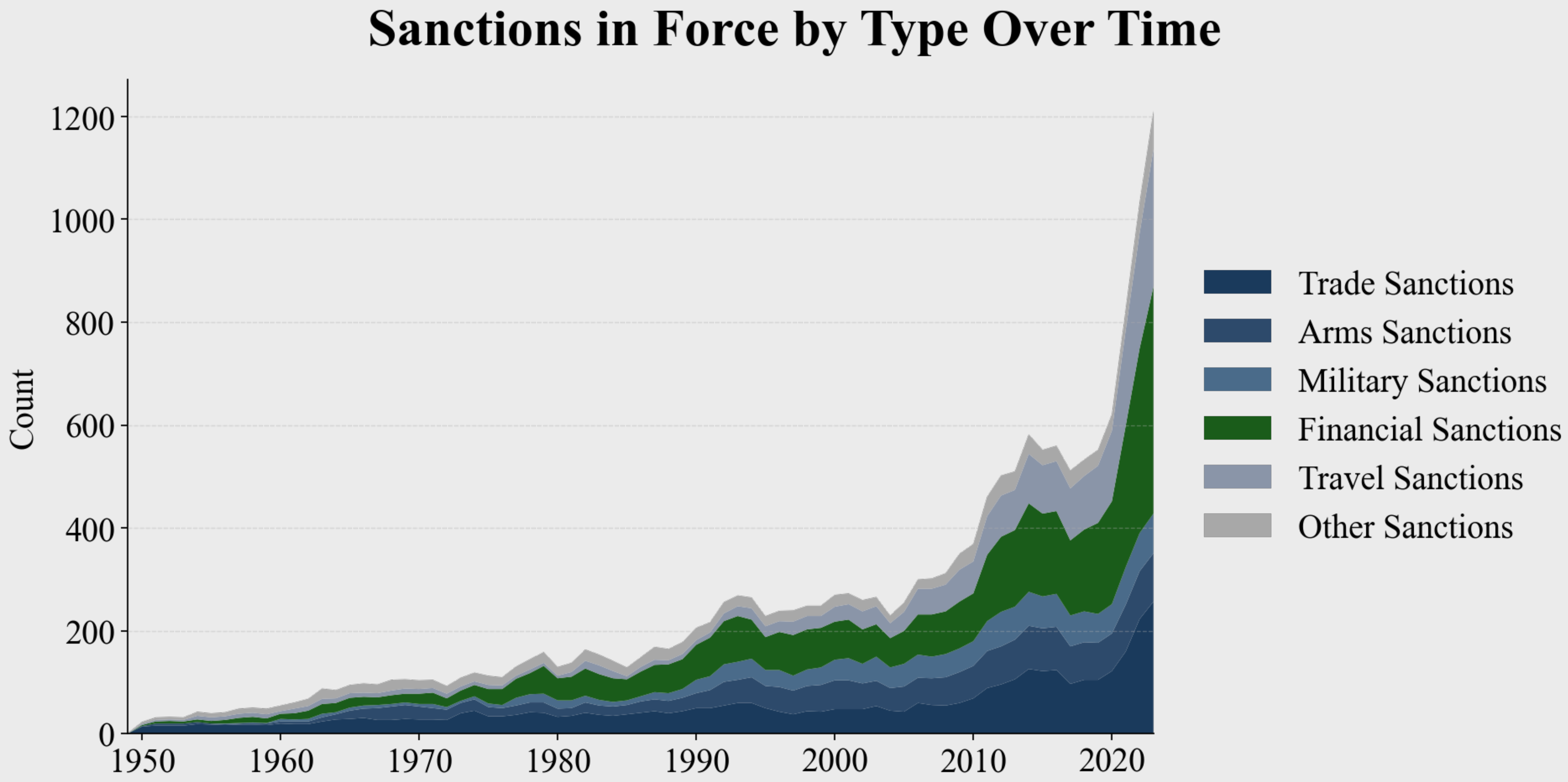
Roadmap

1. How has geopolitics impacted the international monetary regime?
    - dollar dominance

2. What are emerging challenges from stablecoins?

3. What policies can help build resilience and maintain monetary sovereignty?

Rise in Sanctions

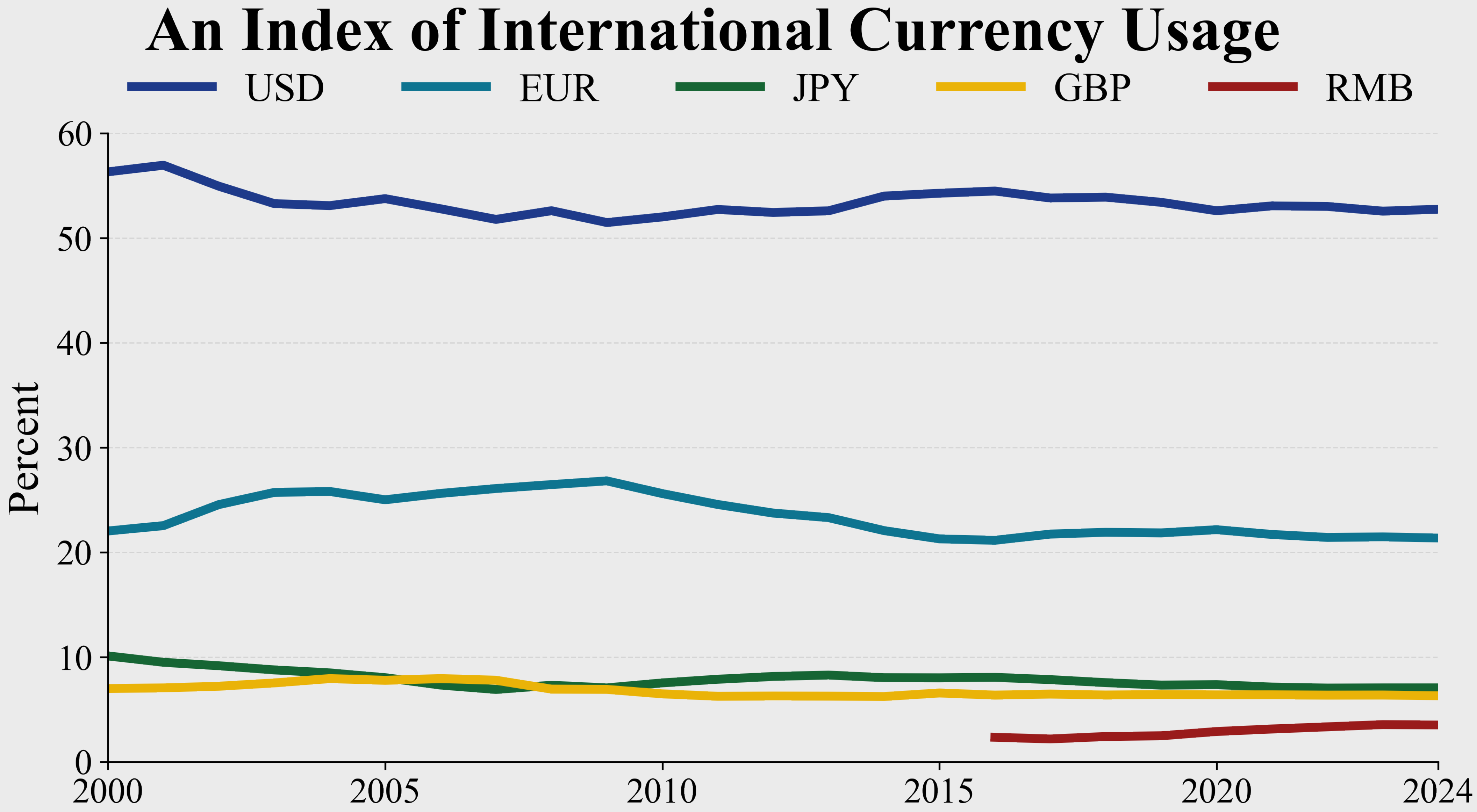


Source: The Global Sanctions Data Base (GSDB)

Dollar dominance across the board

Source: IMF External Sector Report (2025)

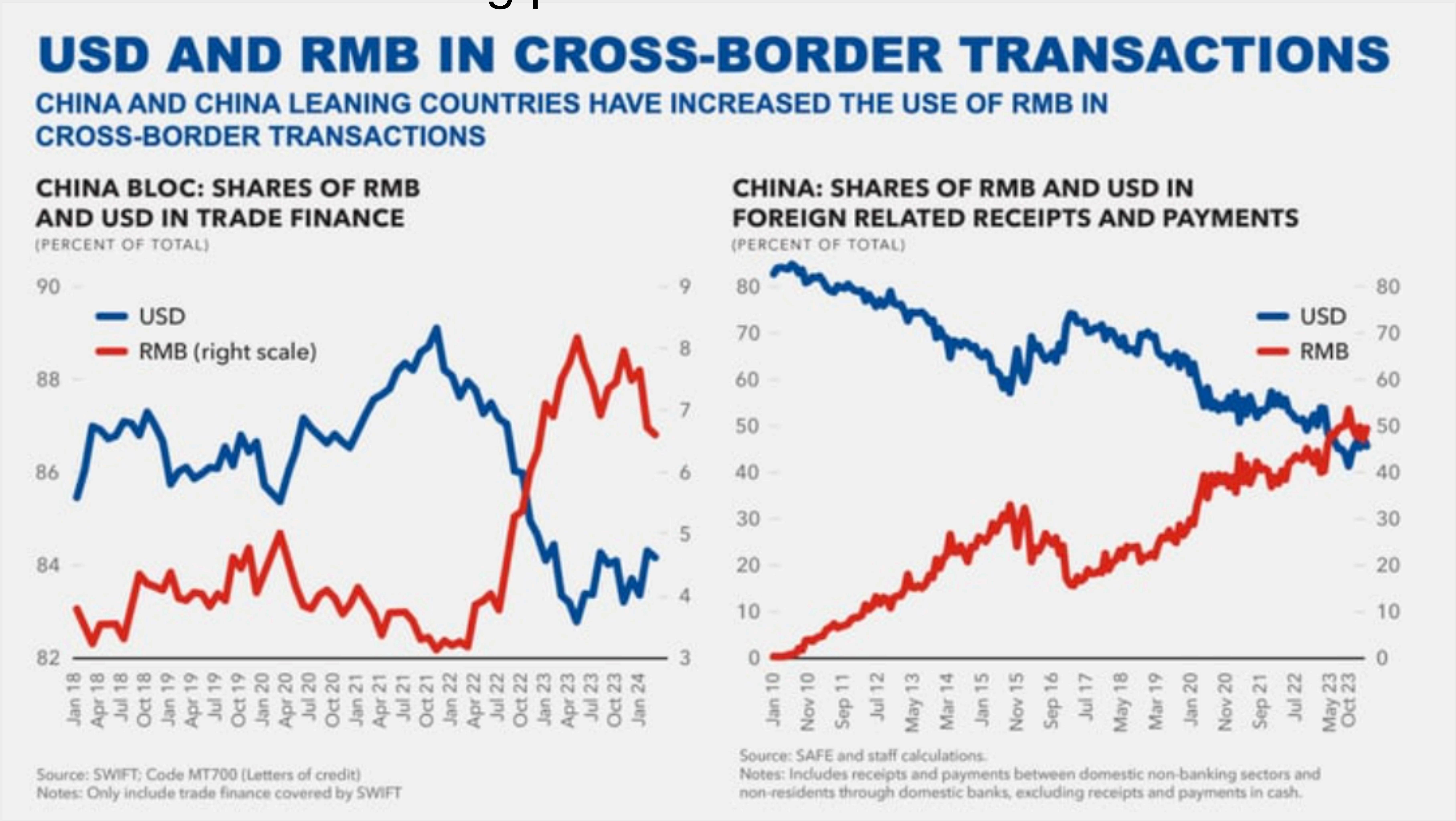
Dollar remains dominant, euro rise halted after GFC



Source: IMF External Sector Report (2025)

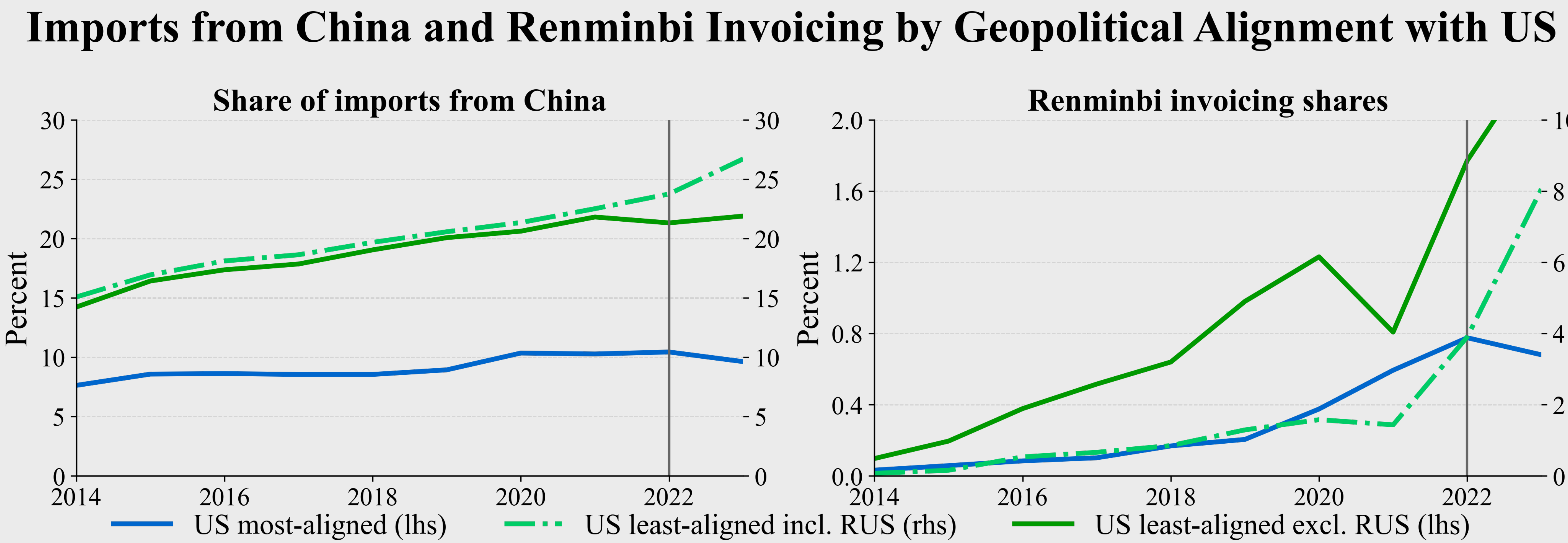
RMB increase from low levels, heavy use in China transactions

Russia invasion of Ukraine a turning point



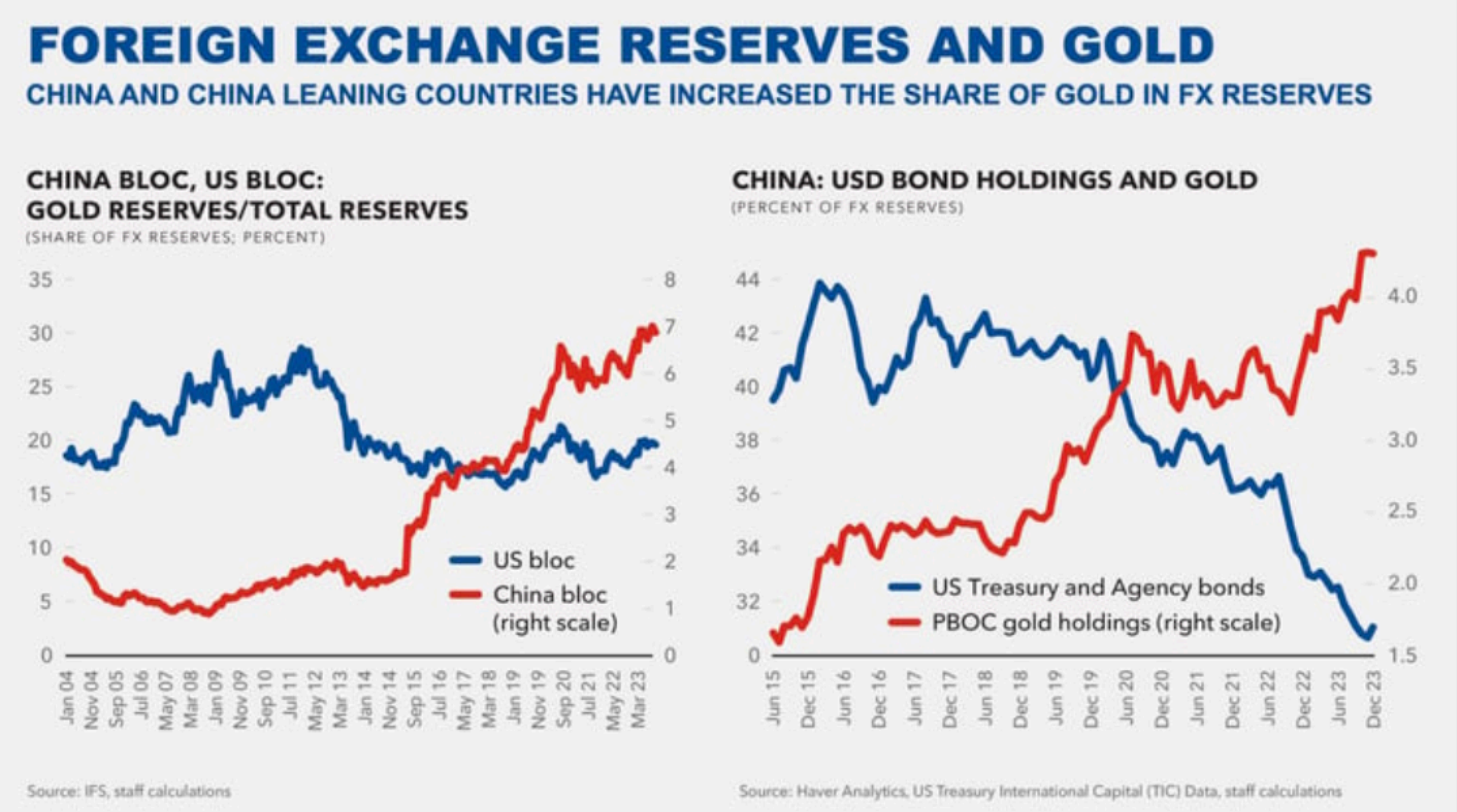
China has its own Cross-Border Interbank Payment System (CIPS)

Increase in RMB invoicing by US least-aligned countries



Source: Boz et al. (2025)

Increase in share of gold in FX reserves of US least aligned countries



How has geopolitics impacted international monetary regime?

- **Dollar remains dominant, euro lost momentum after GFC, and renminbi rising from low levels**

- China using RMB heavily in its own international transactions

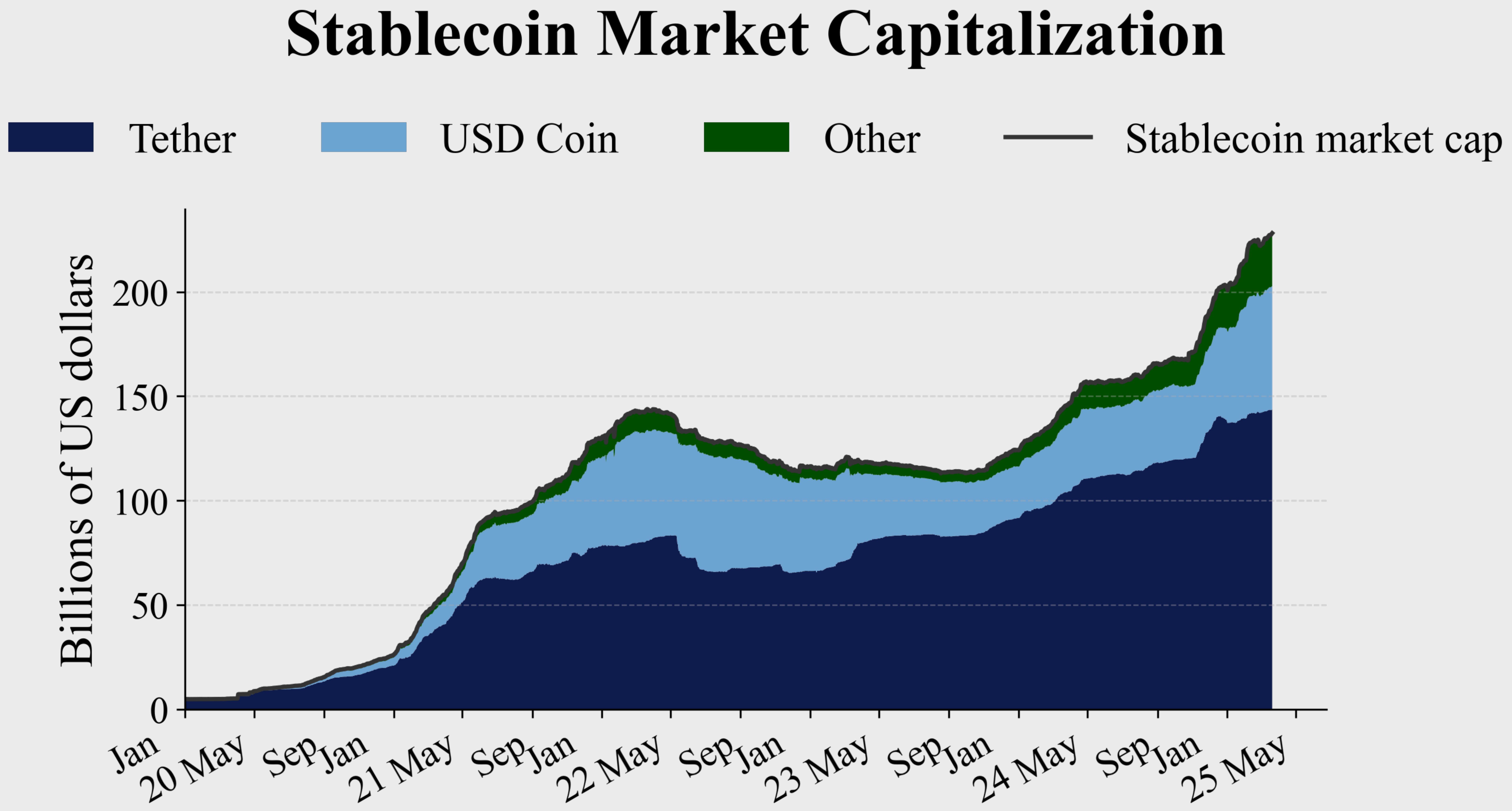
- **For the remainder: countries least aligned with the US**
  - **shifting to renminbi (at low levels, except for Russia)**
  - **shifting to gold in reserves (at low levels)**

- Russia’s invasion of Ukraine turning point

2. Emerging challenges from stablecoins?

Rise of Stablecoins

Medium of Exchange



Source: IMF External Report (2025)

US Treasury Secretary Bessent on GENIUS Act (2025)

“Stablecoins represent a revolution in digital finance. The dollar now has an internet-native payment rail that is fast, frictionless, and free of middlemen. This groundbreaking technology will buttress the dollar’s status as the global reserve currency, expand access to the dollar economy for billions across the globe, and lead to a surge in demand for US Treasuries, which back stablecoins. The GENIUS Act provides the fast-growing stablecoin market with the regulatory clarity it needs to grow into a multitrillion-dollar industry. The signing of this bill marks a seminal moment for digital assets and dollar supremacy.”

Source: https://home.treasury.gov/news/press-releases/sb0197

ECB President Lagarde

(Sintra Conference, 2025)

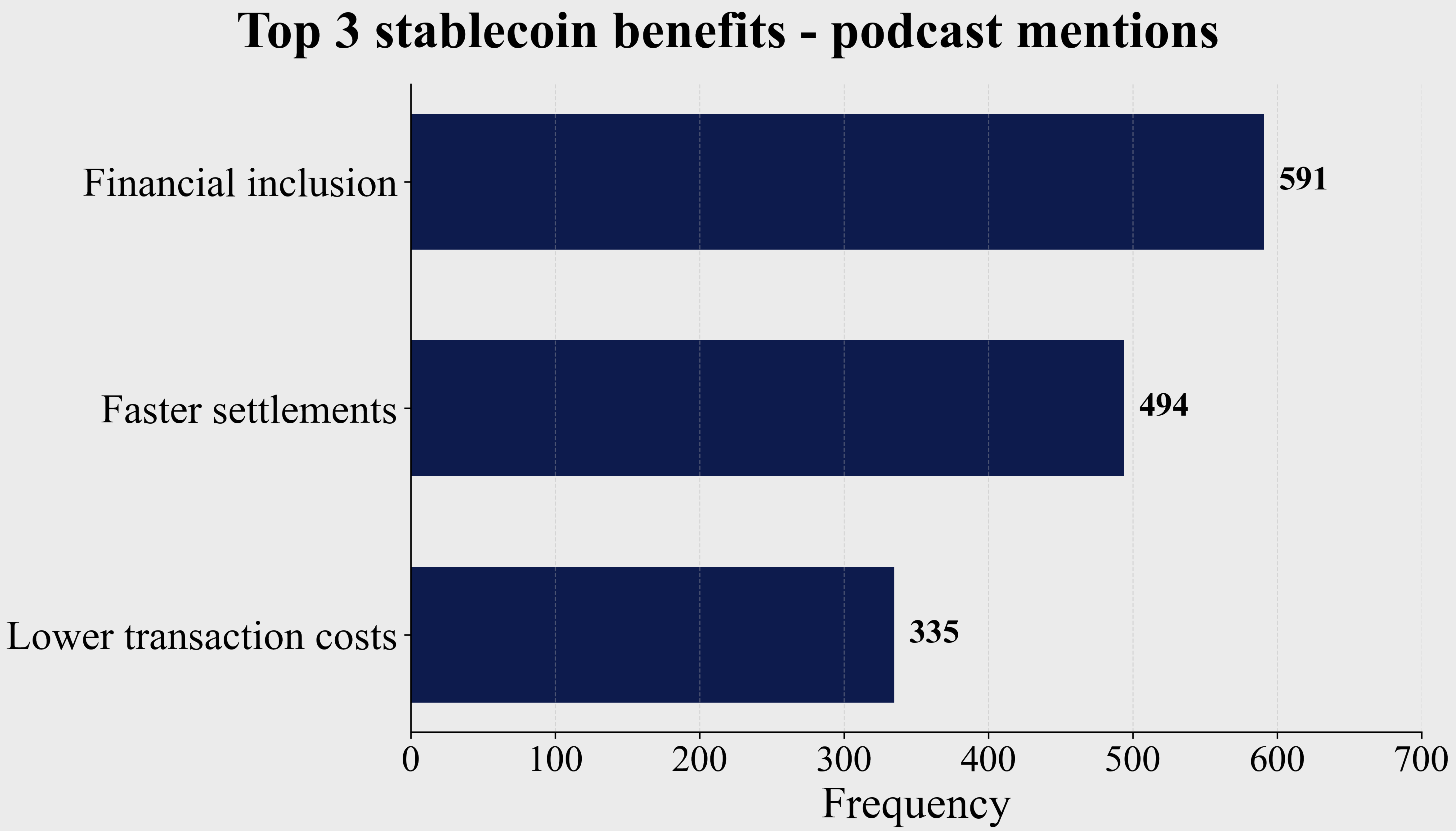
“I regard money as a public good, and ourselves as the public servants in charge of securing and protecting that public good. My fear is that that blurring of the lines I mentioned earlier is likely to lead to a privatization of money. I don’t think that this is the purpose for which we’ve been appointed to do the job that we have, nor is it good for this public good that is money.” “I think it risks undermining our capacity to conduct monetary policy,” “I think it risks weakening the sovereignty of those countries, which inadvertently become subject to the use of that means of payment, payment infrastructure, slash alleged money.”

South Korea Central Bank Governor Rhee

(Sintra Conference, 2025)

> “From our perspective what we are worrying about is that if you allow the unregulated won denominated stable coin it will definitely expedite the exchange into dollar denominated coins and undermine our capital flow management regulation.”

Stablecoin potential benefits



This far mainly used to facilitate crypto transactions.

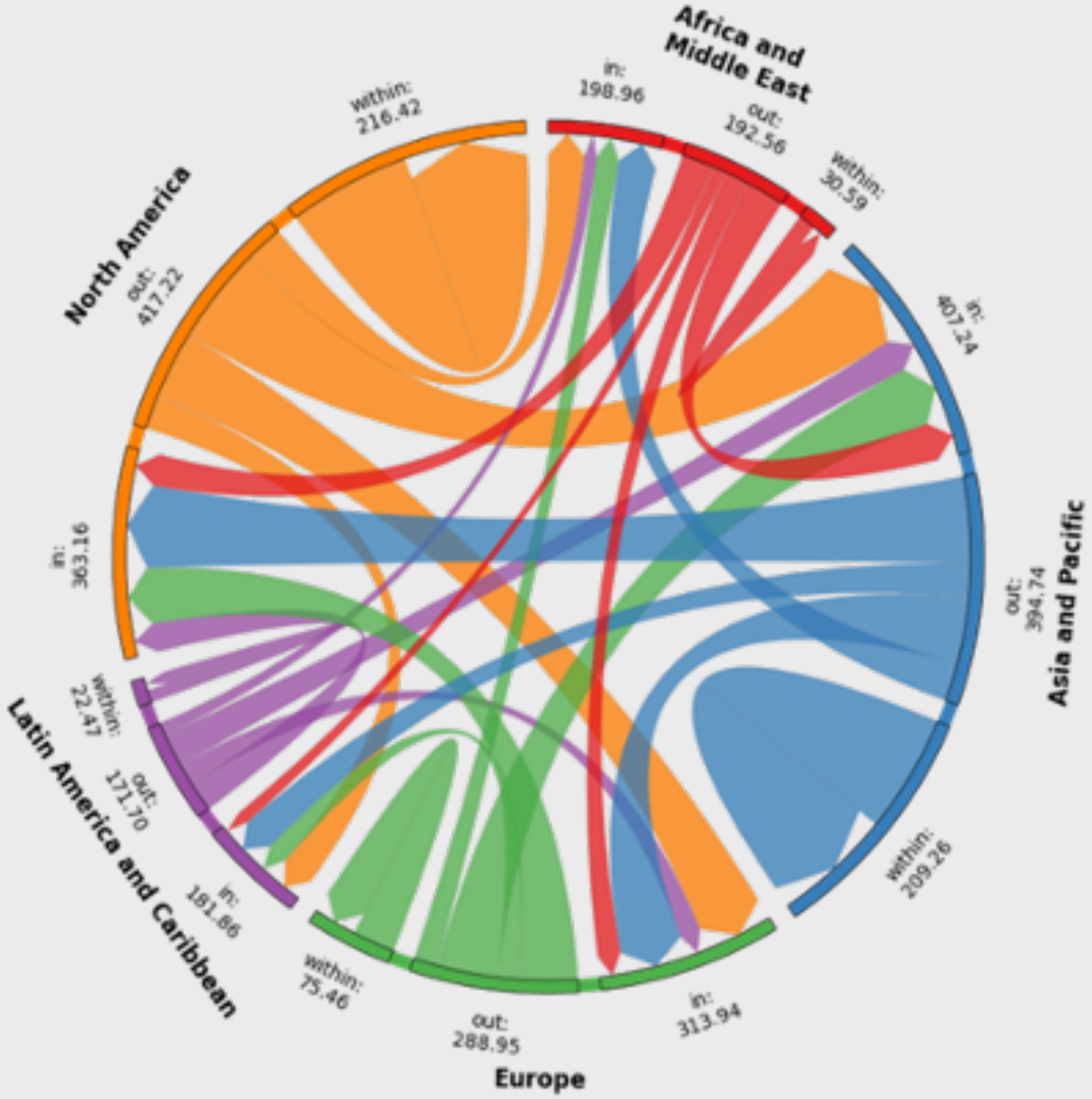
Source: Andersen Institute White Paper (November, 2025)

Potential costs of stablecoins

- Violate the singleness of money. Replace legal tender.
- Loss of monetary control
- Generate run-risk, contagion, financial stability risks
- Evasion of capital controls, AML/CFT concerns.

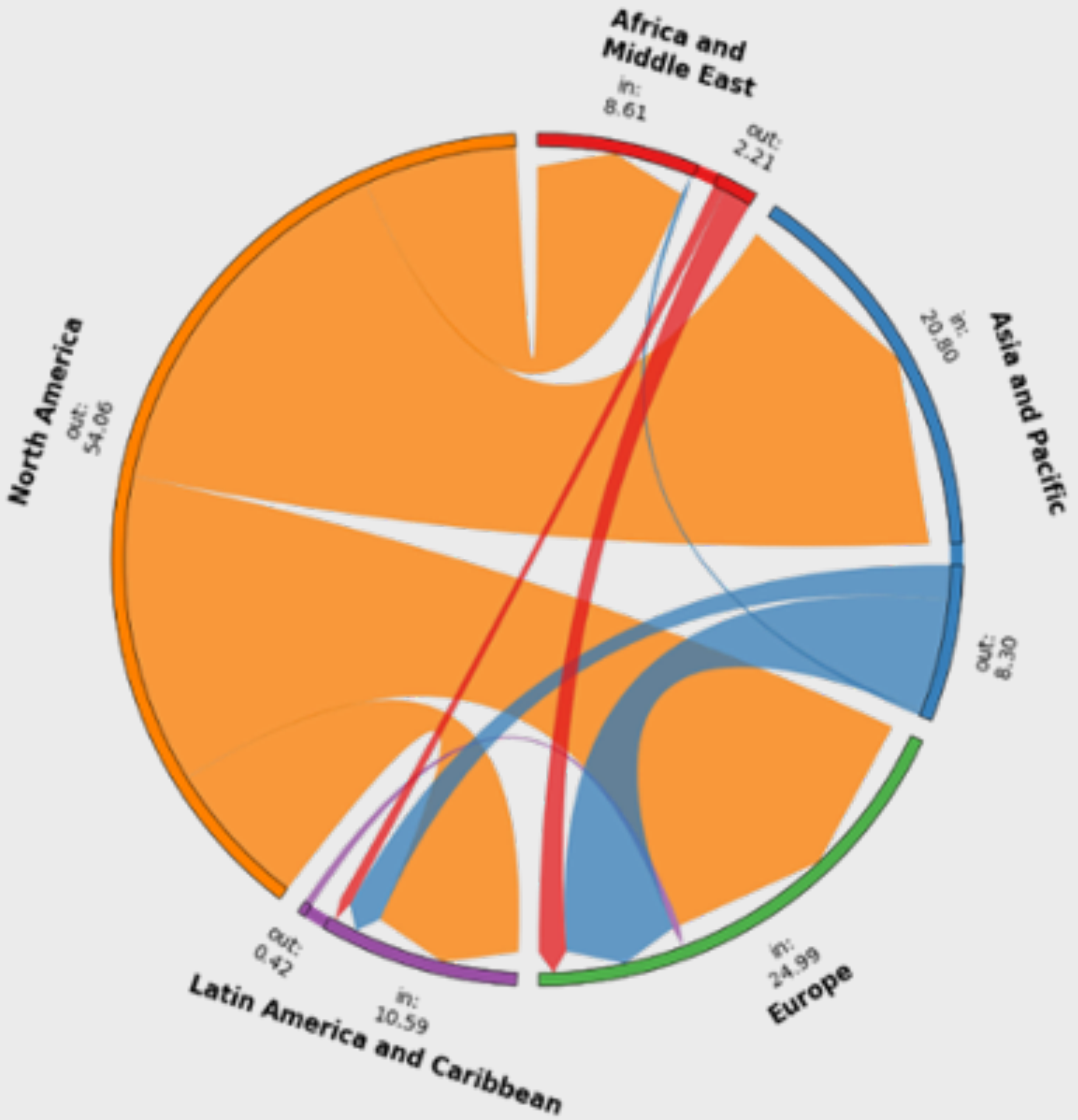
As share of GDP, flows are largest in Latin America & Caribbean, Africa & Middle East

Figure 2.4.2. 2024 Stablecoin Gross Flows
(Biillions of US dollars)



Source: IMF staff calculations.

Figure 2.4.3. 2024 Stablecoin Net Flows
(Biillions of US dollars)



Source: IMF staff calculations.

Correlated with inflation & dollar strength, high cost of remittances.

Uncorrelated with capital controls.

Source: IMF External Sector Report (2025), Reuter (2025), Auer et. Al. (2025),

2. Emerging challenges from stablecoins?

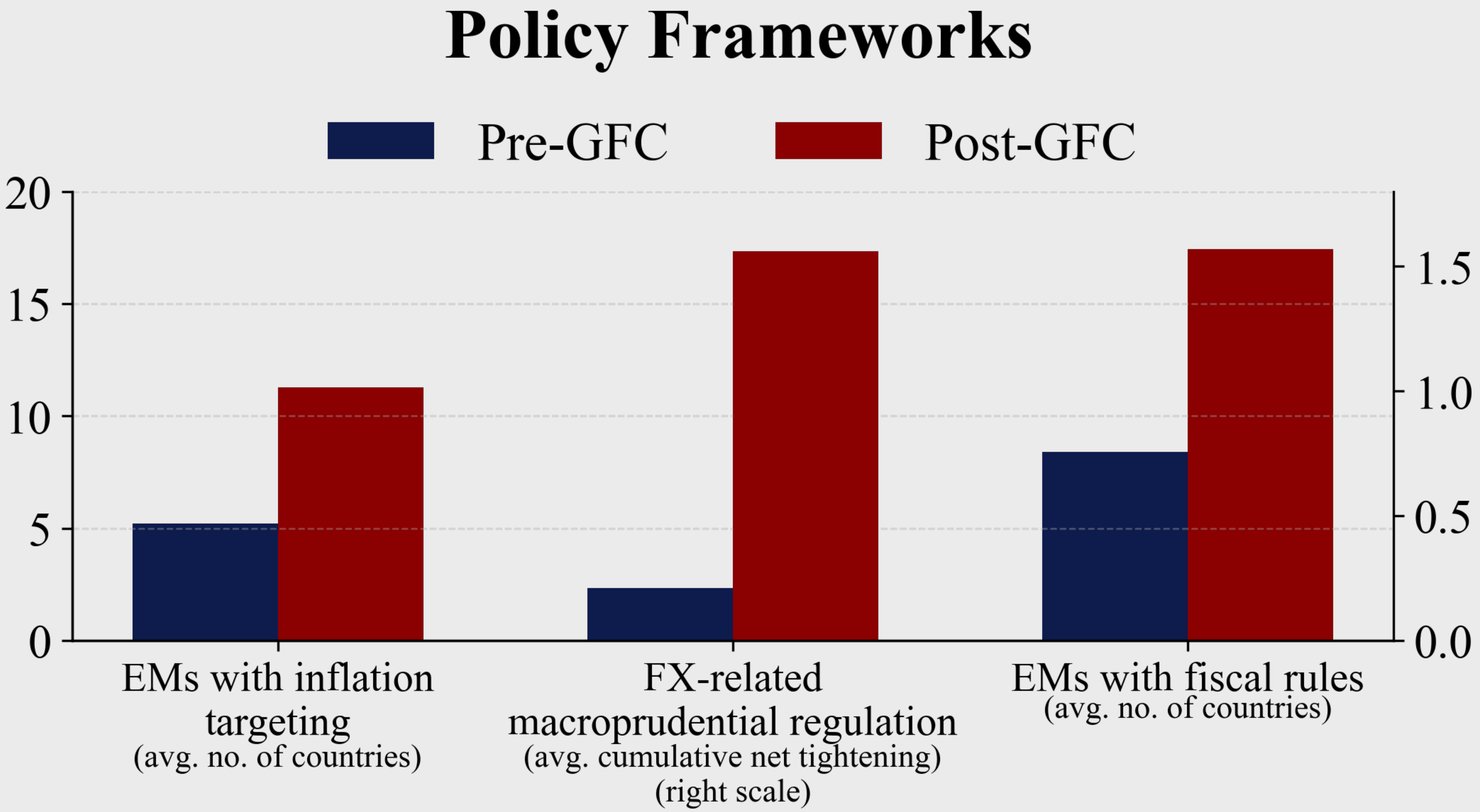
- **Stablecoins are an innovative medium of payment but also pose monetary and financial risks**

- **Fragmented regulatory landscape poses risks**
  - GENIUS compliant and non-GENIUS compliant dollar stablecoins coexist
  - Regulation in US different from regulation in Europe.

- **Demand for dollar stablecoins could arise in countries with high inflation and weak currencies.**
  - Greater demand for unregulated stablecoins as compared to regulated stablecoins.

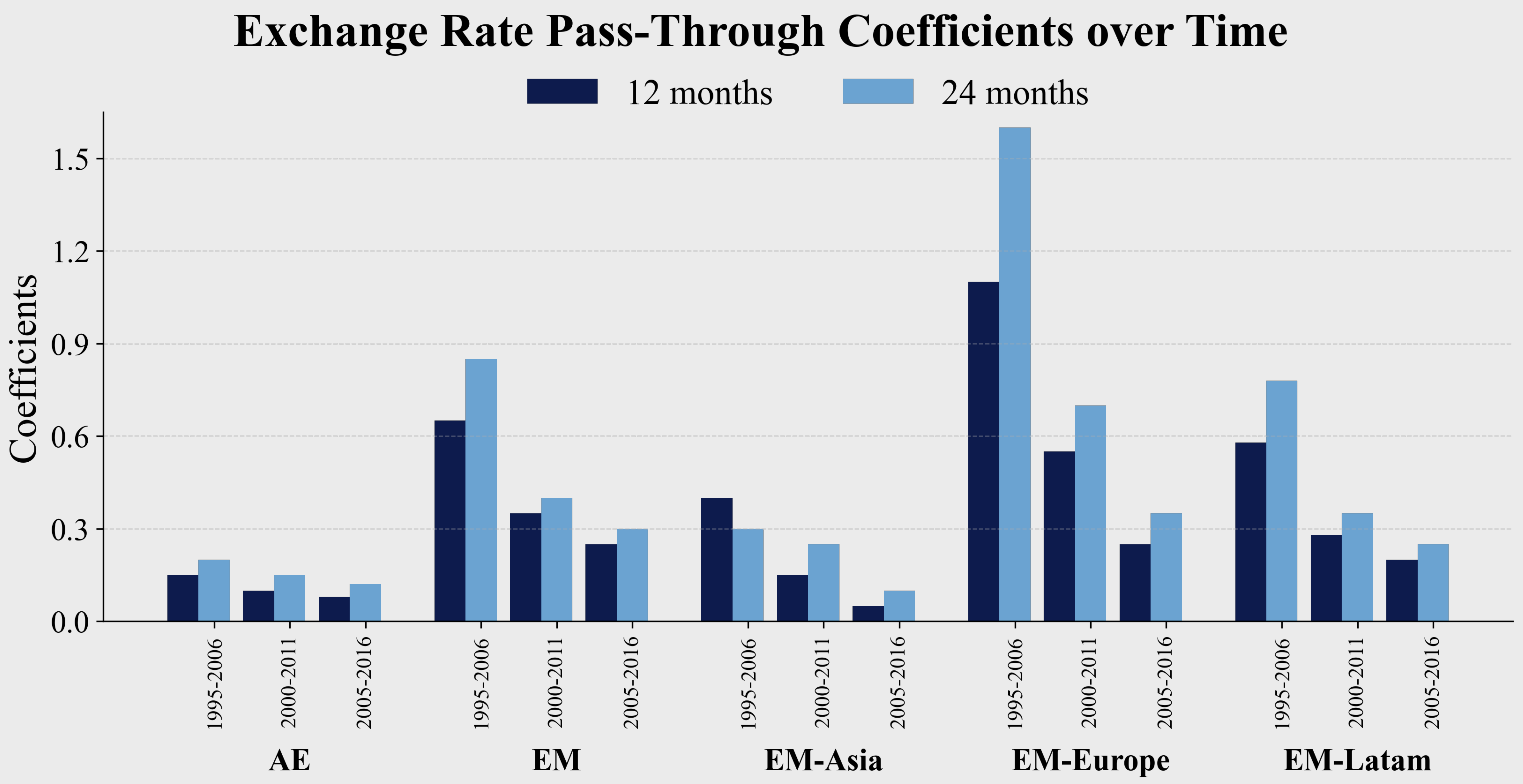
3. What policies can help build resilience and maintain monetary sovereignty?

Emerging Markets built resilience through improved policy frameworks



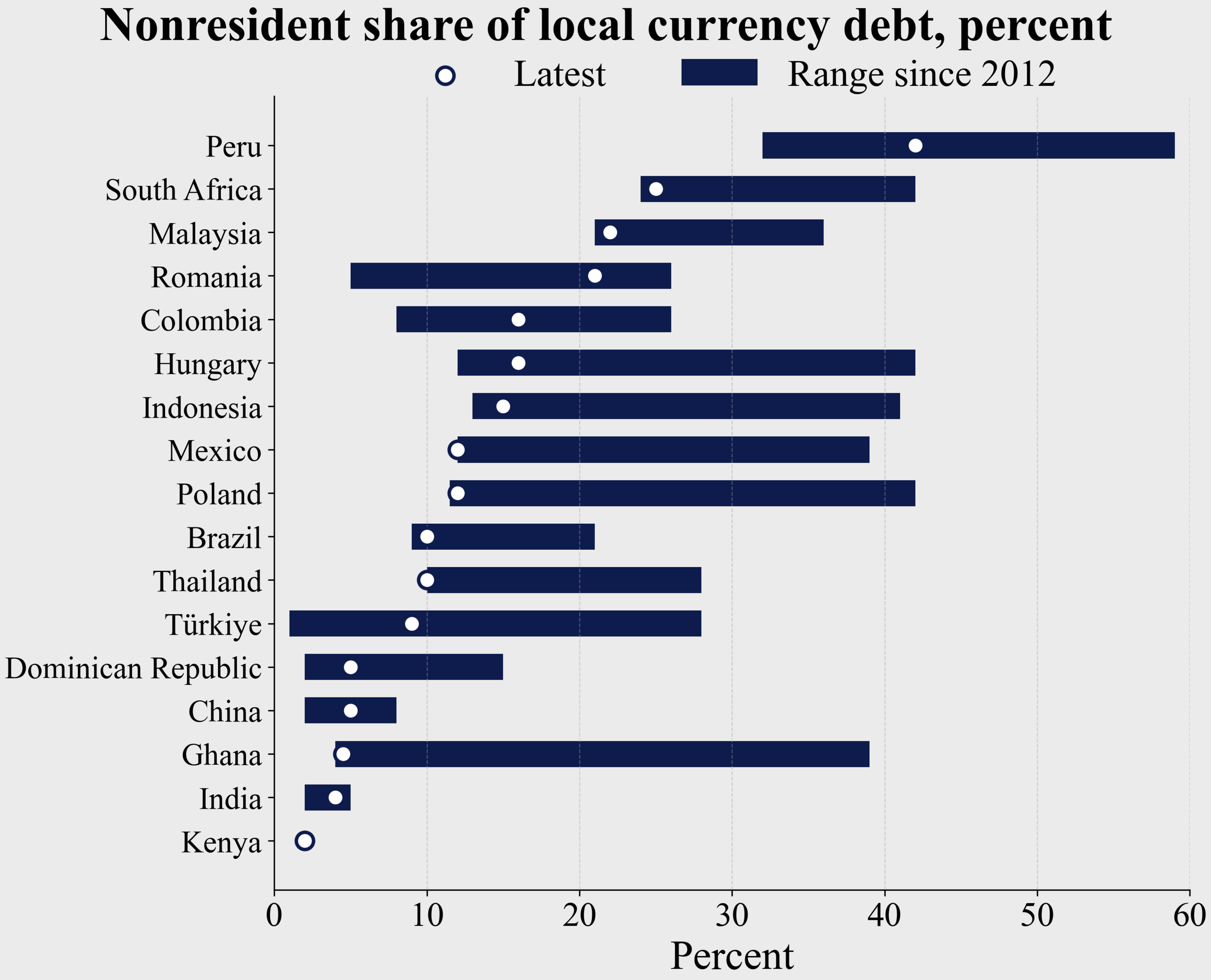
Source: World Economic Outlook, Chapter 2, (October 2025), Bolhuis et.sl. (2025)

Better anchored inflation expectations have reduced exchange rate pass-through



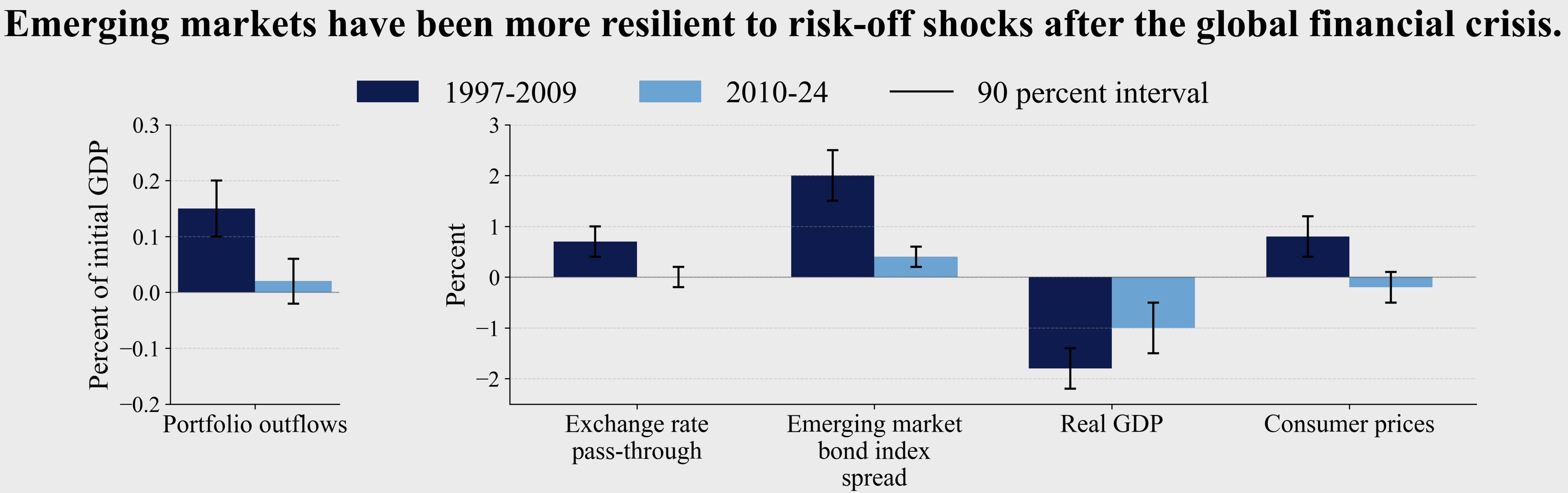
Yan Carri`ere-Swallow, Bertrand Gruss, Nicolas E. Magud, Fabi´an Valencia (IJCB, 2021)

Macro-prudential regulation and development of local currency debt markets have reduced currency mismatch



Source: IMF (October 2025)

Emerging markets more resilient post-GFC



Good policies (50%) Vs. good luck (50%)

Source: Bolhuis et.al. (2025), World Economic Outlook, Chapter 2, (October 2025)

Lessons for the challenges ahead

- Good macro management critical

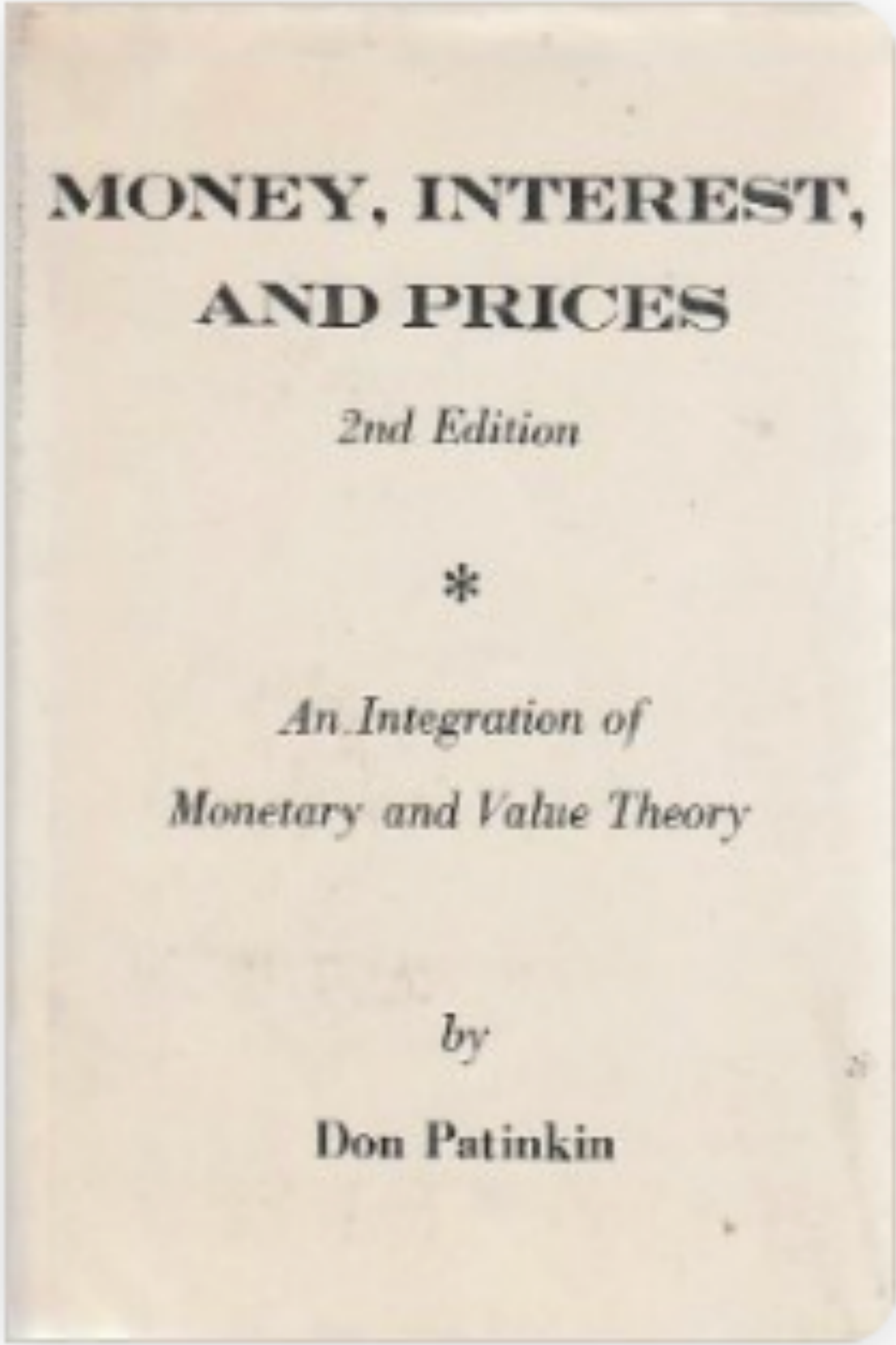
- Ensure regulatory frameworks including capital flow management measures adapting to new digital money environment.

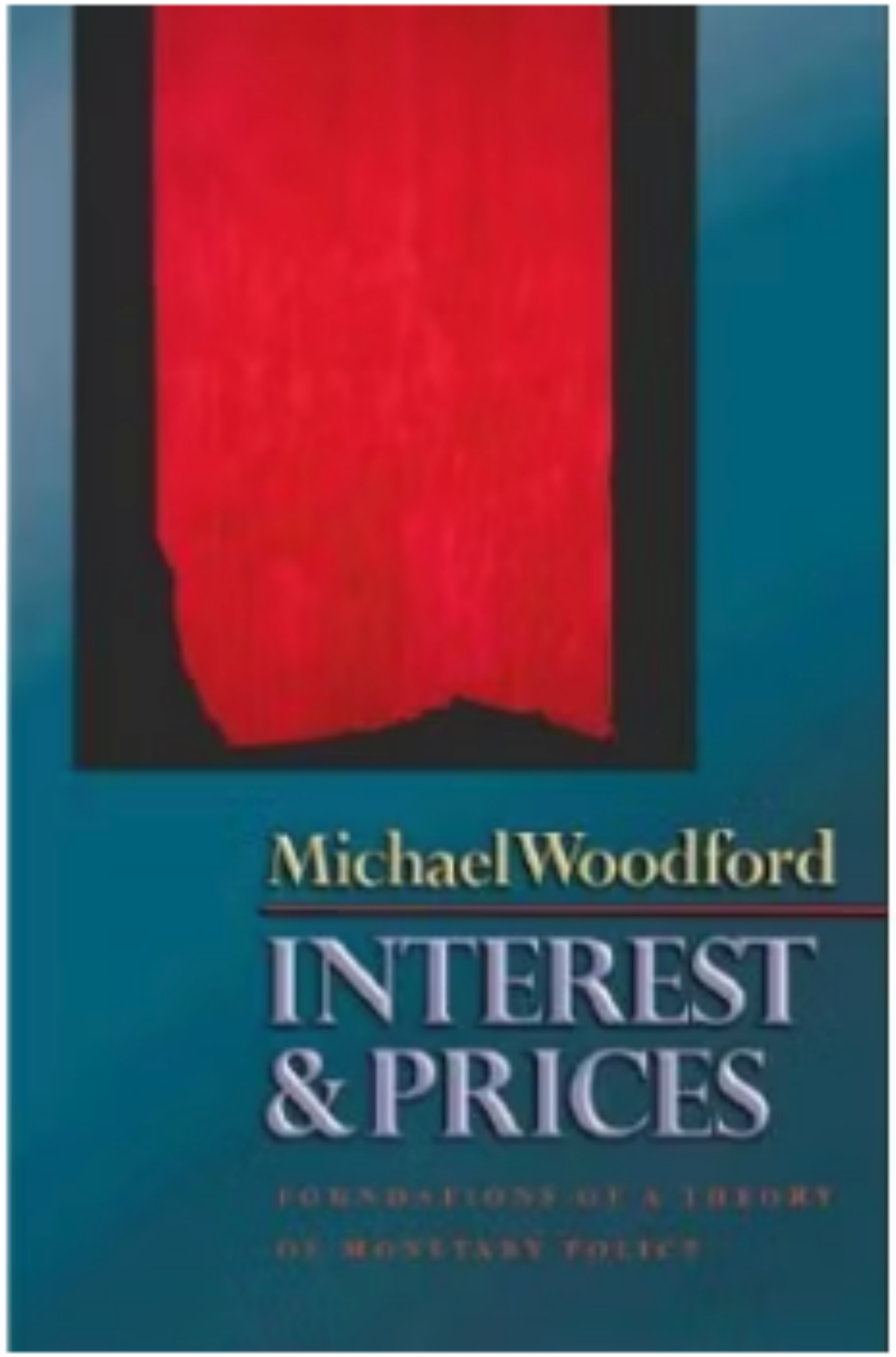
- Deepen domestic financial markets, enhance financial inclusion

- Encourage innovation in payments (UPI, PIX)
  - Reduce cost of cross-border transactions

- Maintain trust in the international monetary system.

Time to bring back ‘Money’ into Monetary Policy





THANK YOU