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The Architecture of MONEY, POWER AND THE DOLLAR

> *How money was invented, how one country came to own the world's accounting system, why every attempt to replace it has failed — and where India actually stands.*

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Research period: March 2026 – August 2026

Data current to 8 August 2026 · 13 figures · 24 tables

VOLUME I

Author's Note

This study began with a question I could not answer.

I was looking at an exchange rate screen. One US dollar cost roughly ninety-five Indian rupees. I understood, in a vague way, that this was "the market". But then a second thought arrived and would not leave: *who decided that?* Nobody in Washington rings a bell each morning. Nobody in Mumbai signs a form. And yet every day, hundreds of millions of transactions across a hundred and eighty countries settle against a number that no single person sets and no single government controls — a number that quietly determines whether an Indian family can afford a laptop, whether an Indian airline can buy fuel, and whether the country's oil bill goes up by nine billion dollars this year.

The more I pulled at that thread, the more it turned out to be attached to everything else. Why is oil priced in dollars when America is not the largest importer of it? Why did the Soviet Union, a superpower with nuclear weapons and a continent of resources, never manage to make the ruble matter? Why can Europe — richer than the United States by population, with a single market and a single currency — not displace the dollar? Why did the world's central banks buy more gold in the last four years than in the previous fifteen? And what, if anything, can a country like India actually do about any of it?

Five months later, this document is what I have. I wrote it for the version of myself who sat down in March and did not know what a eurodollar was. So there is a rule running through every page: **if a sentence cannot be explained in ordinary words, it does not belong in this report.** There is no equation here that a school student cannot follow. Every technical term is defined at the moment it first appears and again in the glossary at the back. Where I use jargon, it is because you will meet that jargon in the newspapers, and you deserve to know what it means when you do.

Two warnings before you begin.

First, this is not a cheerleading document and it is not a doom document. The internet is full of confident people announcing that the dollar collapses next year, and equally confident people announcing that nothing will ever change. Both are selling something. The honest answer is that the dollar's position is *eroding slowly at the edges while remaining unchallenged at the centre*, and I have tried to show you exactly which edges and exactly which centre, with the numbers attached, so that you can form your own judgement.

Second, on India: I have deliberately resisted the temptation to write a flattering story. India in 2026 is the fastest-growing large economy on earth and its position is genuinely stronger than at any point in its history. It is also a country that runs a persistent trade deficit, whose currency is not fully convertible, whose bond market foreigners can barely access, and whose financial depth is a fraction of what a reserve-currency issuer requires. Both of those things are true simultaneously. A study that reports only the first half is a press release, not research.

Read it in order if you can. Each part is built on the one before it, and the last part — the one about whether the dollar's monopoly can be broken — makes very little sense unless you have first understood what money actually *is*.

Lovepreet Singh

August 2026

How to Read This Report

This report is designed so that you can read it cover to cover, or dip into a single chapter and still follow it. Five recurring devices appear throughout. Learn them once and the rest of the document navigates itself.

IN SIMPLE WORDS

Whenever a genuinely difficult idea appears — the Triffin Dilemma, the Impossible Trinity, Balassa–Samuelson — a yellow box like this one restates it in the plainest English available, usually with a household example. If you read nothing else on a page, read these.

KEY NUMBERS

Blue boxes carry the hard data: the actual figure, the actual date, the actual source. Numbers in this report are current to August 2026. Where a figure is contested or measured differently by different bodies, I say so rather than picking the flattering one.

CASE STUDY

Grey boxes tell a real story — a country, a year, a decision and its consequence. Theory is easy to argue with; 1991 is not.

MYTH CHECK

Purple boxes take a claim that circulates widely — usually on the internet, sometimes in newspapers — and test it against the evidence. Several of the most popular claims about de-dollarisation do not survive contact with the data.

THE UNCOMFORTABLE PART

Red boxes are where I write the thing that is inconvenient for whichever argument I have just made. There is at least one in every major section. They are the most important boxes in the report.

A note on numbers

Money is measured in three different ways in this document and confusing them is the single most common error in public debate:

Nominal, at market exchange rates
Convert everything into dollars at today's rate. Best for measuring international purchasing power — buying oil, aircraft, chips, or paying foreign debt.

PPP — Purchasing Power Parity
Adjust for the fact that a haircut costs $2 in Patna and $40 in Boston. Best for measuring the real size of an economy and living standards. Explained fully in Chapter 24.

Real, or inflation-adjusted
Strip out price changes over time so that 1970 rupees and 2026 rupees can be compared.

Unless stated otherwise, "$" means US dollars, "bn" means billion (a thousand million), "tn" means trillion (a thousand billion), and "₹" means Indian rupees. One crore is ten million; one lakh is one hundred thousand.

Contents

Figures are numbered 1–13 and listed in the appendix. All data current to 8 August 2026.

PART I

What Money Actually Is

Before you can understand why the world runs on dollars, you have to understand why the world runs on money at all — and the answer is not the one most people were taught.

CHAPTER ONE

The World Before Money

Every textbook opens with barter: the man with a cow who wants shoes, the cobbler who wants milk. It is a beautiful story. Anthropologists have looked for it for a hundred and fifty years and never found a society that worked that way.

Start with the problem money solves, because everything else follows from it.

Imagine a village with no money. You are a farmer with a sack of wheat. You want a pair of sandals. You walk to the sandal-maker. He says: I have sandals, but I do not need wheat this week; I need a goat. So now you must find someone who has a goat and wants wheat, trade with him, then walk back to the sandal-maker. If the goat-owner wants fish, not wheat, you need a fourth person. Every additional person multiplies the difficulty.

Economists call this the **double coincidence of wants**: for a trade to happen directly, I must want what you have *and* you must want what I have, at the same moment, in the same place, in the same quantities. In a village of ten people that is inconvenient. In a city of a million it is impossible.

> IN SIMPLE WORDS
>
> Barter needs a perfect match. Money removes the need for a match. Instead of finding someone who wants exactly what you have, you sell what you have to *anyone*, receive a token that everybody accepts, and use that token to buy what you want from *anyone else*. Money is not a thing. Money is a permission slip that splits one trade into two halves that no longer have to happen at the same time.

Three other problems barter cannot solve

The matching problem is the famous one, but three more are just as fatal.

Indivisibility. A cow is worth roughly forty chickens. What if you want three chickens? You cannot cut off three-fortieths of a live cow and keep the rest useful. Most valuable goods cannot be divided without destroying their value.

Storage. A fisherman's wealth rots in two days. He cannot save. Without a way to store value, nobody can accumulate, and without accumulation nobody can invest, and without investment there are no roads, no ships and no factories.

Accounting. In a barter world there is no common ruler. Is a plough worth more than a year of a labourer's work? You would need to memorise the exchange rate between every pair of goods. With 100 goods that is 4,950 separate prices. With money it is 100 prices.

Table 1.1 — Number of exchange rates you must know

Goods in the economy	Prices needed under barter	Prices needed with money
10	45	10
100	4,950	100
1,000	499,500	1,000
10,000	49,995,000	10,000

Barter prices = n(n−1)/2. This alone makes a complex economy arithmetically impossible without money.

What actually happened instead

Here is where the textbook story breaks down. The anthropologist Caroline Humphrey put it bluntly in 1985: "No example of a barter economy, pure and simple, has ever been described, let alone the emergence from it of money." What researchers find in societies without money is not barter. It is **credit and obligation**.

In a small community, everybody knows everybody. If I have surplus grain and you are hungry, I give you grain. Not as charity and not as a trade — as a debt held in memory. Next season, when my roof fails, you fix it. The village runs on a mental ledger of who owes what to whom. It works beautifully at the scale of a few hundred people who cannot escape each other.

It collapses the moment you meet a stranger. A stranger has no reputation with you, no fear of your community's disapproval, and may never return. *That* is when you need a settlement that is final — something handed over that closes the obligation on the spot. Barter, when it appears in history, is what happens between strangers and enemies. Credit is what happens between neighbours.

> **KEY INSIGHT**
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> Money was not invented to replace barter between neighbours. It was invented to allow transactions between **strangers**, at scale, without trust. Every later development in this report — coins, banknotes, SWIFT, the dollar — is a solution to the same problem: how do two parties who have no reason to trust each other complete an exchange? Understanding this makes the dollar's dominance intelligible. The dollar is not popular because Americans are liked. It is dominant because it is the most widely accepted answer to "how do we settle between strangers?"

Commodity money: the first answer

Before coins, dozens of societies converged independently on the same solution: pick a commodity that everyone values and use it as the middle step. The choices are revealing.

Table 1.2 — Commodity monies and why they worked (or failed)

Money	Where and when	Why it worked	Why it failed
Cattle	Indo-European, Vedic India, Africa	Universally valued; reproduces itself	Cannot divide; needs feeding; dies
Barley & grain	Mesopotamia, 3000 BCE	Divisible; everyone eats	Rots; bulky; quality varies
Cowrie shells	China, India, West Africa, 1500 BCE–1900 CE	Durable, small, hard to fake, pretty	Europeans shipped them in by the boatload and destroyed the value
Salt	Rome, Sahara trade	Essential, divisible, storable	Dissolves; heavy relative to value
Silver & gold	Everywhere, from ~3000 BCE	Rare, durable, divisible, uniform, dense in value	Supply is an accident of geology, not of economic need
Cigarettes	POW camps and prisons, 1940s–today	Divisible, portable, demanded by users	Smokers consume the money supply

Notice what the successful ones share: durable, portable, divisible, uniform, difficult to counterfeit, and *scarce*. Gold and silver won not because of mysticism but because they score well on all six at once. They also do something subtler: they are useless. Gold does not rot and almost nobody needs it for survival, which means using it as money does not deprive anyone of food or shelter. A money made of wheat is a money that starves people during a famine.

CASE STUDY — THE COWRIE COLLAPSE

For nearly three thousand years cowrie shells were real money across Asia and Africa. They were still legal currency in parts of India under the East India Company and in West Africa into the 1890s. Then European traders realised something. Cowries came from the Maldives, and steamships could carry them by the tonne. Between 1850 and 1890, roughly 35,000 tonnes of shells were imported into West Africa. The value of the currency collapsed, wiping out the savings of an entire region.

This is the first documented case of what we now call **monetary imperialism**: one power destroying another's money supply simply by flooding it. Keep this in mind for Chapter 16. The mechanism changes; the logic does not.

CHAPTER TWO

Debt Came First: Mesopotamia and the Birth of Accounting

The oldest writing humanity possesses is not poetry, law or scripture. It is a receipt. Money began as a number written down, not as a coin held in the hand.

Around 3300 BCE in the city of Uruk, in what is now southern Iraq, someone pressed a reed into wet clay to record that a quantity of barley had been received. Roughly ninety per cent of all surviving cuneiform tablets from the earliest period are administrative: inventories, rations, loans, debts. Literature comes eight centuries later. Writing was invented for accounting.

The silver shekel: a unit that nobody held

By around 3000 BCE the temple bureaucracies of Sumer had done something remarkable. They defined a standard unit of account: the **shekel**, equal to roughly 8.3 grams of silver, and also defined as equal to one *gur* (about 300 litres) of barley — a month's ration for a worker. Every debt, fine, rent and wage in the city could now be expressed in shekels.

The crucial detail: almost nobody used silver in daily transactions. Silver was in the temple. The peasant who owed three shekels paid in barley, in wool, in labour on the canals. The shekel was a *measuring stick*, not a payment. This is the single most important fact in the early history of money, and it took economists most of the twentieth century to accept it.

> **IN SIMPLE WORDS**
>
> Think of a school with a points system. Good behaviour earns points; points can be spent on privileges. Nobody carries a physical "point". The points exist as numbers in the teacher's register. Sumerian money was exactly this: numbers in a ledger, measured in silver but rarely paid in silver. When you hear that "the dollar is just numbers in a computer", the correct response is not alarm. It is: *yes, and money has worked that way since 3000 BCE.* The coin era, roughly 600 BCE to 1971 CE, is the unusual chapter, not the normal one.

Interest, and the invention of the debt crisis

Mesopotamia gave us the world's first interest rates, and they were brutal. The standard rate on a silver loan was 20 per cent per year; on barley, 33 per cent. The Code of Hammurabi (c. 1750 BCE) capped them at exactly those levels, which tells you they were being exceeded.

Compound interest grows faster than agriculture. A farmer who borrowed in a bad year could not repay in a good one. The sequence was always the same: first he pledged his oxen, then his fields, then his children, then himself. Within a few generations a large share of the free population would be in bondage to creditors, the army could not be raised because soldiers were debt-slaves, and the state faced collapse.

The Mesopotamian solution was radical and worked for two thousand years: the **clean slate**. On the accession of a new king — and sometimes more often — all agricultural debts were cancelled by decree, bond-servants freed, pledged land returned. The Sumerian word was *amargi*, literally "return to the mother", and it is the first written word for "freedom" in any human language. Its original meaning was debt cancellation.

> **KEY NUMBERS**
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> Recorded royal debt cancellations in Mesopotamia: at least 30 between 2400 and 1600 BCE. Standard silver interest: 20% per annum. Standard barley interest: 33% per annum. Hammurabi's Code, §117: a debt-servant must be freed after three years regardless of the sum owed.

THE UNCOMFORTABLE PART

The clean slate worked because the creditors were mostly the palace and the temple — the state was cancelling debts owed to itself. Once creditors became a private class with political power, cancellation became impossible. Rome tried and failed; the resulting land concentration and debt bondage contributed to the collapse of the Republic. Every modern debt crisis in Part VI of this report — Argentina, Sri Lanka, Zambia — is the same problem: debts that arithmetically cannot be paid, and a creditor class with enough power to prevent them being written off. Five thousand years, and we have not solved it.

What Mesopotamia proves

- **Money is a unit of account before it is anything else.** The measuring function came first; the payment function came later.
- **Credit is older than currency.** Debt tablets predate coins by 2,700 years.
- **Money is a creature of the state.** Temples and palaces set the standard, fixed the equivalences, and enforced the contracts. Money did not bubble up from the market; it was imposed from above and then adopted by the market.
- **Debt has a political limit.** Beyond a certain point it must be written off or it destroys the society carrying it.

CHAPTER THREE

The Invention of the Coin

Around 600 BCE, three civilisations independently hit on the same idea within about a century of each other: stamp a lump of metal with a mark and let the mark do the work of trust. It changed war, empire and everyday life.

The problem with using silver as payment is verification. Is this lump pure? Does it weigh what you claim? Every transaction required a scale and a sceptic. The coin solved this with a piece of psychological engineering: a stamp from an authority that vouched for weight and purity, so that the buyer could count instead of weigh.

Three births

Lydia, western Turkey, c. 630–600 BCE. King Alyattes and later his son Croesus struck lumps of electrum — a natural gold-silver alloy from the Pactolus river — stamped with a lion's head. Croesus later issued the first pure gold and pure silver coinage, which is where "rich as Croesus" comes from.

India, c. 600–500 BCE. The *Mahajanapadas*, the sixteen great kingdoms of the Gangetic plain, produced **punch-marked coins** called *karshapana*: silver pieces cut to a standard weight and struck with multiple small symbols — sun, wheel, animals, hills. They circulated from Gandhara to Magadha. The *Arthashastra*, attributed to Kautilya around 300 BCE, describes a full state mint with a *lakshanadhyaksha* (superintendent of coinage) and an examiner of counterfeits.

China, c. 600–500 BCE. Bronze objects shaped like miniature spades and knives — representations of the tools they replaced — eventually standardised as the round coin with a square hole, which survived essentially unchanged for over two thousand years.

> IN SIMPLE WORDS
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> A coin is a lump of metal with a government's signature on it. The signature says: "I certify this is 8 grams of silver, and if you doubt me, you are calling the king a liar." You no longer need scales or a chemist. You count. That single shortcut is why coins spread across the entire Old World in about three hundred years.

What coins were really for: paying soldiers

Coinage did not appear in the most sophisticated commercial societies. Mesopotamia had banking, interest, contracts and international trade for 2,500 years without coins. Coins appeared in societies with something else: **professional armies**.

An army on the move is the ultimate stranger-economy. Thousands of armed men arrive somewhere, need food, and have no relationship with the locals. The state's solution is elegant and brutal: mint coins from captured bullion, pay the soldiers in coins, then demand that the local population pay taxes in those same coins. The population must now sell food to the soldiers to obtain coins to pay the tax. The army is provisioned without the state organising a single supply convoy.

> KEY INSIGHT — THE TAX LOOP
>
> This is the engine of all state money, then and now. A government creates a token, then creates demand for that token by requiring it in payment of taxes. You accept rupees not primarily because you trust the RBI but because the Income Tax Department will accept nothing else. This single mechanism — economists call it

chartalism — explains why a piece of paper with no backing has value, and it is the missing half of the argument when people ask "but what is the dollar actually backed by?" Answer: by the fact that 340 million people must obtain dollars every April or go to prison.

Debasement: the first inflation

Every coin-issuing state eventually discovered the same trick. If a coin's value comes from the stamp, why put full silver in it? Melt down 100 coins, add cheap copper, restrike 110. The state gains 10 coins from nothing. This gap between a coin's face value and its metal cost is called **seigniorage**, and it is the ancestor of every modern government's ability to finance itself by printing.

Table 3.1 — The debasement of the Roman silver denarius

Emperor	Period	Silver content	Consequence
Augustus	27 BCE – 14 CE	~98%	Stable prices, expanding empire
Nero	54 – 68	~93%	First deliberate debasement, to fund rebuilding
Marcus Aurelius	161 – 180	~75%	Plague and German wars
Septimius Severus	193 – 211	~50%	Army pay raised 33%
Gallienus	253 – 268	~5%	Hyperinflation; prices up ~1,000% in a generation
Diocletian	284 – 305	reformed	Price Edict of 301 fixes 1,200 prices; death penalty for breaches; fails within years

Diocletian's Edict is the first recorded national price-control programme. It did not work. Chapter 27 explains why price controls fail so reliably.

MYTH CHECK

Claim: "Inflation is a modern problem caused by leaving the gold standard."

Reality: Rome inflated its currency by more than 99 per cent while on a pure metal standard. Medieval England, Ming China, and sixteenth-century Spain all suffered severe inflation with gold and silver money. Metal restrains a government only if the government chooses to be restrained; if it does not, it debases. What actually changed after 1971 is not the existence of inflation but its *mechanism* — and, in the good cases, the arrival of independent central banks that made low inflation a stated legal objective. Chapter 28 has the full argument.

CASE STUDY — GRESHAM'S LAW IN YOUR POCKET

When a government debases, people are not fooled for long. They spend the new, low-silver coins and hoard the old, high-silver ones. Within a few years, only bad coins circulate. This is **Gresham's Law**: bad money drives out good, *when the law forces both to be accepted at the same face value*.

India lived this in reverse in November 2016. When ₹500 and ₹1,000 notes were demonetised, they instantly became "bad money" — and were dumped into the banking system as fast as people could manage, while the new ₹2,000 note was hoarded. Same law, running in the direction the state chose.

CHAPTER FOUR

Paper: China's Thousand-Year Head Start

China invented banknotes around 1000 CE, ran the world's first national paper currency, produced the world's first hyperinflation, and then abandoned paper money entirely for four hundred years. Europe repeated every stage of the experiment, several centuries late.

The origin is mundane. Sichuan province in the Song dynasty used iron coins, which were heavy: a purchase of one *bolt* of silk required about 40 kilograms of currency. Merchants began depositing coins with trusted shops and carrying the receipt instead. Around 1023 the Song government took over the practice and issued the *jiaozi* — the world's first government-issued paper money.

It worked because the state made it work: the notes were printed with multiple colours and intricate seals to defeat forgery, they were redeemable for coin, they were issued in limited series with expiry, and they were accepted for taxes. The tax loop again.

c. 1023
Song government issues *jiaozi* in Sichuan — first state paper currency in history.

1160s
Southern Song, financing war against the Jin, over-issues *huizi*. First recorded paper-money inflation.

1260
Kublai Khan issues the *Chao*: paper made non-redeemable, refusal punishable by death. The first true **fiat** currency — value by decree alone.

1290s
Marco Polo describes it to a disbelieving Europe: the Khan "makes money out of the bark of trees" and "may be said to have the secret of the alchemists."

1350s
Yuan dynasty finances rebellion suppression by printing. Prices rise perhaps 1,000-fold. The dynasty falls in 1368.

1375–1425
Ming issue the *Da Ming Baochao*; it loses ~99% of value.

1450
China abandons paper money. Reverts to silver ingots for four centuries. Institutional memory of hyperinflation was that strong.

1661
Stockholms Banco issues Europe's first banknotes. Over-issues within 3 years. Founder Johan Palmstruch sentenced to death (commuted).

1694
Bank of England founded to lend £1.2m to the Crown for war against France — and permitted to issue notes against that loan.

1716–20
John Law's Banque Générale in France. Paper money plus a stock bubble in Louisiana land. Collapse so total that France avoided the word "banque" for a century.

IN SIMPLE WORDS

Paper money went through three stages, and every country repeats them.

Stage 1 — the warehouse receipt. You leave gold with a goldsmith; he gives you a paper that says "the bearer may collect 10 grams of gold". The paper is as good as gold, and lighter. This is fully backed.

Stage 2 — the partly-backed note. The goldsmith notices that only a few people come to collect on any given day. So he issues more paper than he has gold. This is where money starts being *created*.

Stage 3 — fiat. The state drops the promise entirely. The paper is worth something because the state says it is and demands it back in taxes. Kublai Khan did this in 1260. The United States did it in 1971. Every country in the world is at Stage 3 today.

THE UNCOMFORTABLE PART

Paper money has one unforgiving property: **the cost of producing more of it is essentially zero.** Under a metal standard, a government wanting more money had to find a mine or win a war. Under paper, it needs a decision. Every single hyperinflation in recorded history — Yuan China, revolutionary France, Weimar Germany, Hungary 1946, Zimbabwe 2008, Venezuela 2018 — happened under paper or near-paper money, and every one followed the same trigger: a government with obligations it could not meet from taxation, and a printing press.

This is not an argument for gold. It is an argument for *institutions*. The question that matters is not "what is the money made of?" but "who can create it, and what stops them?" Hold that question. It is the real subject of this entire report.

Why Europe caught up and overtook

China invented paper money and abandoned it. Europe adopted it late and built the modern world on it. The difference was institutional.

When the Bank of England was created in 1694, it was not an arm of the King. It was a private company of subscribers who lent to the Crown, and critically, Parliament — not the monarch — pledged specific tax revenues to service the debt. A king could default; a Parliament that represented the creditors would not. This is the origin of the phrase "the full faith and credit of the government", and it is the reason Britain could borrow at 3 per cent while France, an absolute monarchy with a larger economy, paid 6 per cent and eventually went bankrupt into a revolution.

Remember this mechanism. In Chapter 13 it reappears as the single most underrated pillar of American monetary power: *the credibility that comes from constraints on your own government.*

CHAPTER FIVE

Goldsmiths, Banks and the Money Banks Invent

Around 97 per cent of the money in a modern economy was not printed by any government. It was typed into existence by commercial banks when they made loans. This is the least understood fact in economics, and it is not controversial — the Bank of England published a paper saying so in 2014.

Return to the goldsmith. He holds gold for a hundred customers and has issued a hundred receipts. He observes that on a typical day only three or four people come to withdraw. So he has, sitting in his vault, gold that nobody is asking for.

He makes a loan. But he does not hand over gold. He writes the borrower a *new receipt*. There are now 110 receipts against 100 units of gold. The borrower spends his receipt; the shopkeeper who receives it does not rush to the vault either. Nobody has been defrauded and nothing has broken. The goldsmith has created ten units of money out of a judgement about human behaviour.

> IN SIMPLE WORDS — HOW A LOAN CREATES MONEY
>
> You go to a bank for a ₹30 lakh home loan. You imagine the bank takes ₹30 lakh from depositors' savings and hands it to you. That is not what happens.
>
> The bank types two numbers into its computer. On one side it writes: *the customer owes us ₹30 lakh* (an asset). On the other side it writes: *we owe the customer ₹30 lakh* (a deposit — a liability). Your account balance now reads ₹30,00,000. That balance is money. You can spend it anywhere. It did not exist ninety seconds ago and it came from no depositor.
>
> When you repay the loan, the reverse happens: the deposit is cancelled against the debt, and the money is **destroyed**. Money in a modern economy is not a fixed pile that circulates. It is a level that rises when people borrow and falls when they repay.

What stops banks from creating infinite money

Four things, and none of them is "the amount of deposits they have".

1. Capital requirements

A bank must hold shareholders' own money — capital — against its loans, typically 8–13% of risk-weighted assets under the Basel rules. Each new loan consumes capital. When capital runs out, lending stops. This is the real brake.

2. Reserve and liquidity requirements

Indian banks must park a share of deposits with the RBI as the Cash Reserve Ratio (CRR, 4% in 2026) and hold government securities as the Statutory Liquidity Ratio (SLR, 18%). If your borrower pays someone at another bank, you must settle in central bank reserves — which you must buy.

3. Profitability and risk

A loan that is not repaid destroys the bank's capital. Banks lend only where they expect repayment; in a recession they stop lending precisely when the economy needs it most. This is why recessions feed themselves.

4. The central bank's interest rate

The price of the reserves banks must obtain to settle payments. Raise it and lending becomes expensive; lower it and lending becomes cheap. This is the main lever of monetary policy and the subject of Chapter 29.

KEY NUMBERS — WHERE INDIA'S MONEY ACTUALLY IS

Of India's broad money supply (M3), physical currency in circulation is roughly 12–13 per cent. The remaining 87–88 per cent exists only as bank deposits — entries in databases. In the UK the figure is about 3 per cent notes and coins; in the US, roughly 8–10 per cent depending on the measure. *Most money has no physical existence anywhere.*

The three kinds of money you actually use

Table 5.1 — The hierarchy of money

Type	Who creates it	Who can hold it	Risk if issuer fails
Central bank reserves	RBI / Federal Reserve	Only commercial banks and government	None — the issuer cannot run out of its own currency
Cash (notes & coins)	Central bank / treasury	Everyone	None, except inflation
Bank deposits	**Commercial banks, by lending**	Everyone	You lose it — unless insured (in India, up to ₹5 lakh per depositor per bank)
E-money / wallets / UPI balances	Payment firms, on top of bank deposits	Everyone	Depends on where the float is held
CBDC (e₹, digital yuan)	Central bank directly	Everyone (pilot stage)	None — this is the point of it

THE UNCOMFORTABLE PART — WHY BANK RUNS HAPPEN

If 97 per cent of money is bank deposits, and banks hold only a fraction in reserves, then no bank on earth can repay all its depositors at once. Not one. This is not a flaw that regulation has fixed; it is the design. Banking works because everyone does not ask at once.

When enough people *do* ask at once — Northern Rock in 2007, Silicon Valley Bank in March 2023, Yes Bank in India in 2020 — the bank fails even if its loans were sound, because the loans are long and the deposits are short. Deposit insurance and central bank lending exist purely to stop the panic from starting. The entire modern financial system rests on a confidence trick that is honest about being one.

CASE STUDY — INDIA'S COOPERATIVE BANK LESSON

In September 2019 the RBI capped withdrawals at Punjab and Maharashtra Cooperative Bank at ₹1,000 after discovering that over 70 per cent of its loan book had gone to a single bankrupt property developer, concealed through thousands of fake accounts. Roughly 900,000 depositors were frozen out; several died waiting. Deposit insurance was then ₹1 lakh; it was raised to ₹5 lakh in February 2020 partly in response.

The lesson is not that banks are evil. It is that a deposit is not "your money in a vault". It is a *loan you have made to a bank*, and it is only as safe as the bank's loan book and the state's willingness to stand behind it. This distinction becomes decisive in Chapter 13, where we ask why the world trusts American bank deposits more than anyone else's.

CHAPTER SIX

So What *Is* Money?

A working definition, the three jobs money does, the six properties good money needs, and the one question that determines whether any currency — rupee, dollar, yuan or bitcoin — can succeed.

After five chapters of history, here is the definition this report will use:

Money is a socially and legally enforced claim on real resources, whose value rests on the confident expectation that other people will accept it tomorrow.

Unpack that. *Socially and legally enforced*: courts uphold it, taxes require it. *Claim on real resources*: money is not wealth, it is a ticket to wealth. *Confident expectation that others will accept it*: this is the whole ballgame. Money is a belief that is true because it is widely held. Nothing else about it matters as much.

The three jobs

Table 6.1 — The three functions of money

Function	What it means	Everyday example	What breaks it
Medium of exchange	Everyone accepts it in payment	You buy tea with a ₹10 note	Hyperinflation — shops stop accepting
Unit of account	Prices and debts are measured in it	A car is "₹9 lakh"	High inflation — people start quoting prices in dollars
Store of value	It holds worth over time	Savings for a house	Inflation, devaluation, confiscation

These fail in a specific order, and the order is diagnostic. Store of value fails first (people buy gold, dollars, property). Unit of account fails second (menus in dollars, rents in dollars). Medium of exchange fails last (shops refuse the currency outright). When you see a country pricing things in dollars internally — Zimbabwe 2008, Lebanon 2021, Argentina for decades — the currency is already in stage two of death.

The six properties

Durable — survives handling. **Portable** — high value in small bulk. **Divisible** — splits without loss. **Uniform** — one unit identical to another. **Limited in supply** — scarce enough to hold value. **Acceptable** — others take it.

The last one is not just another item on the list. **Acceptability is the only property that cannot be engineered.** You can design a perfectly durable, portable, divisible, uniform, scarce currency and have it fail completely because nobody uses it. This is precisely the wall that the BRICS currency proposals, the SDR and most cryptocurrencies run into.

The network effect: why money is a winner-take-most market

Money gets more useful the more people use it — exactly like a language or a telephone network. A currency used by 1 per cent of the world is nearly useless to you: you cannot pay for anything with it. A currency used by 60 per cent is enormously useful even if it has flaws, because it will be accepted everywhere you go.

This produces a brutal dynamic. Small advantages compound into total dominance, and dominance persists long after the original advantage has disappeared.

IN SIMPLE WORDS

Why do people still use QWERTY keyboards when better layouts exist? Because everyone else does, so all keyboards are made that way, so everyone learns it, so everyone else does.

Why does the world still use dollars when America is 26 per cent of the world economy but the dollar is 57 per cent of reserves and 50 per cent of payments? Same reason. You hold dollars because your supplier wants dollars, because *his* supplier wants dollars, because the commodity he buys is priced in dollars. Everyone individually is behaving sensibly. Collectively the result is a monopoly that no one voted for and no single participant can escape alone.

This is the central fact of this entire report. **The dollar's strength is not primarily American power. It is everybody else's inability to move at the same time.**

KEY NUMBERS — THE DISPROPORTION

~26%	57.1%	50.1%	81.2%	~88%
US share of world GDP (nominal, 2026)	Dollar share of global FX reserves (2026 Q1)	Dollar share of SWIFT payments (June 2026)	Dollar share of trade finance (June 2026)	Of all FX trades have USD on one side

Sources: IMF COFER 2026Q1; SWIFT Global Currency Tracker, June–July 2026; BIS Triennial Survey. The final figure is out of 200% because every FX trade involves two currencies.

THE UNCOMFORTABLE PART

Because acceptability is self-reinforcing, currency dominance does not decline gently in proportion to the issuer's economic weight. It holds, and holds, and holds — and then, if a genuine alternative appears and a critical mass moves together, it goes quickly. Sterling was 87 per cent of reserves in 1947, eleven years after Britain had already ceased to be the largest economy. By 1973 it was 7 per cent. The transition took roughly twenty-five years and was triggered not by economics but by two political shocks: Suez in 1956 and the devaluation of 1967.

This cuts both ways in the argument. Optimists about de-dollarisation should note that nothing has yet reached critical mass. Pessimists should note that the fall, when it came for sterling, was faster than anyone predicted.

PART II

How the World Organised Around One Currency

Two hundred years, two world wars, one conference in a New Hampshire hotel, and a Sunday-evening television address that changed money forever.

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7. The Gold Standard · 8. The System Breaks · 9. Bretton Woods · 10. The Nixon Shock · 11. The Petrodollar · 12. Eurodollars

CHAPTER SEVEN

The Gold Standard and the Century of the Pound

Between 1821 and 1914 the world ran on a system in which exchange rates essentially did not move. It produced the first great globalisation, and it was built on an accident involving Isaac Newton.

In 1717 Sir Isaac Newton, then Master of the Royal Mint, set the official price of gold at £3 17s 10½d per troy ounce. He got the silver-to-gold ratio slightly wrong relative to world markets, which quietly drove silver out of England and left the country on a de facto gold standard. Britain formalised it in 1821. Because Britain then became the world's dominant industrial and naval power, everybody else eventually joined the standard Britain happened to be on: Germany in 1871, France and the Latin Union in 1873–78, the United States formally in 1900, Japan in 1897, and India — not by choice — under British rule.

How it worked

Each country fixed its currency to a specific weight of gold and promised to convert on demand. If £1 = 7.32 grams and $1 = 1.50 grams, then £1 = $4.87 — not by negotiation, but by arithmetic. Exchange rates were fixed because both currencies were really the same thing wearing different clothes.

> IN SIMPLE WORDS — THE AUTOMATIC THERMOSTAT
>
> The gold standard had a self-correcting mechanism, and it is worth understanding because everything since has been an attempt to get its benefits without its cruelty.
>
> Suppose India imports more than it exports. Indians pay foreigners; gold physically leaves the country. Less gold at home means less money at home. Less money means *prices and wages fall*. Cheaper Indian goods mean foreigners start buying them. Exports rise, gold comes back, balance is restored. No policy decision needed anywhere. Economists call it the price–specie flow mechanism.
>
> Now read the middle sentence again: **prices and wages fall.** That is the adjustment. In a country with a trade deficit under the gold standard, the correction is a recession — falling wages, unemployment, business failures — imposed automatically, with no appeal. That is why the gold standard is dead. Not because it did not work, but because it worked by hurting workers, and once workers could vote, no government could survive administering it.

Table 7.1 — The classical gold standard, 1870–1914: the ledger

What it delivered	What it cost
Exchange rates essentially fixed for 40+ years — the sterling/dollar rate moved less than 1%	No independent monetary policy: interest rates were set by gold flows, not by domestic need
Long-run price stability — UK prices in 1914 were close to 1870 levels	Violent short-run swings: prices fell ~40% in 1873–96, then rose with the gold discoveries
Enormous cross-border investment; UK held ~£4bn of foreign assets by 1913	Recessions were deep and frequent; there was no policy tool to soften them
Trade grew faster than at any time before 1950	Money supply depended on gold mining. A discovery in South Africa was a global stimulus; a dry decade was a global depression
Britain's costs of borrowing were the lowest in the world	The system was policed by the Bank of England for Britain's convenience, and by empire for everyone else's

India under the standard: a warning about pegs

India's experience is the part usually left out. India was on a *silver* standard while Britain was on gold. When world silver prices collapsed after 1873, the rupee fell steadily against sterling — which was good for Indian exports but catastrophic for the colonial government, whose "Home Charges" (payments to Britain for pensions, army costs and debt service) were fixed in sterling and had to be paid out of rupee taxation.

In 1893 the British administration closed the Indian mints to free silver coinage and in 1899 fixed the rupee at 1 shilling 4 pence — the "gold exchange standard". India did not hold gold; it held sterling balances in London. India's reserves were, in effect, loans to Britain.

THE UNCOMFORTABLE PART — THE DRAIN

The mechanism deserves precision, because it is often described loosely. Britain did not generally seize Indian gold. It did something more elegant. India ran a large trade surplus with the world, especially with China and Europe. Those surpluses were settled in London, in sterling, and credited to the Secretary of State for India. Against them were charged the Home Charges — the cost of India's own administration, the Indian Army's overseas deployments, pensions of British officials, and interest on debt raised in London for railways guaranteed at 5 per cent regardless of whether they made money.

Estimates of the annual transfer vary widely by method — Dadabhai Naoroji's original calculations, R.C. Dutt's, and modern reconstructions by Utsa Patnaik differ by an order of magnitude — and the largest figures involve strong assumptions about counterfactual reinvestment. What is not disputed is the structure: **India earned foreign exchange and Britain held and spent it.** India's export earnings financed Britain's deficits with Europe and America and, in part, financed the sterling system itself.

The lesson for Part VII is direct and not sentimental. *A country that earns foreign exchange but does not control the system in which that exchange is held and settled is a country whose surpluses can be used by someone else.* This is why "who controls the payment rails" is not a technical question. It never was.

CHAPTER EIGHT

1914–1939: The System Breaks

Twenty-five years in which the world tried to put the pre-war monetary system back together, failed, and in failing produced hyperinflation in Germany, the Great Depression everywhere, and the political conditions for a second world war.

On 1 August 1914 the belligerent powers suspended gold convertibility. They had to: you cannot fight an industrial war on a money supply limited by the amount of gold in your vaults. Governments printed, borrowed and requisitioned. By 1918 British prices had roughly doubled, French prices had tripled, German prices had quadrupled — and the fixed exchange rates of the previous century were gone.

Weimar: the hyperinflation everyone half-remembers

Germany's inflation is the most cited monetary event in history and the most frequently misunderstood. The sequence matters.

1914–18
Germany finances the war almost entirely by borrowing, expecting to repay from reparations extracted from the losers. It loses.

1919
Treaty of Versailles. Reparations later fixed at 132 billion gold marks — payable in gold or foreign currency, not in paper marks.

1921–22
To obtain foreign currency, Germany sells marks on the exchanges. The mark falls; import prices rise; the government prints to cover the gap. The loop begins.

Jan 1923
Germany defaults on a timber delivery. France and Belgium occupy the Ruhr, Germany's industrial heart. Berlin calls a general strike — and pays the striking workers with printed money while output is zero.

Nov 1923
One US dollar = 4.2 trillion marks. Prices doubled roughly every two days. Workers were paid twice daily and ran to the shops.

15 Nov 1923
The *Rentenmark* is introduced, nominally backed by a mortgage on German land, and the old currency exchanged at 1 : 1,000,000,000,000. Inflation stops within weeks.

IN SIMPLE WORDS — THE ACTUAL LESSON

People remember "Germany printed money, so there was inflation" and conclude that printing always causes hyperinflation. That is not the lesson.

The lesson is that hyperinflation requires **a government forced to buy something it cannot afford in a currency it cannot print.** Germany had to pay reparations in gold and foreign currency. It could print marks, but it could not print francs. So it printed marks to buy francs, which destroyed the mark.

Every hyperinflation has this structure: a hard foreign-currency obligation plus a collapse in domestic production. Zimbabwe 2008 — farm output collapsed, imports had to be paid in dollars. Venezuela 2018 — oil output collapsed, dollar debts remained. Note carefully what this implies: *a country that borrows in its own currency and produces what it consumes is very hard to hyperinflate.* This asymmetry — who can borrow in their own money and who cannot — is called "original sin" in the literature and is one of the most important disadvantages developing countries face. India will meet it again in Chapter 38.

Britain's disastrous return to gold, 1925

In 1925 Winston Churchill, as Chancellor, returned sterling to gold at the *pre-war parity* of $4.86 — a matter of national honour. But British prices had risen more than American prices during the war. Restoring the old rate meant sterling was overvalued by roughly 10–15 per cent.

Under the gold standard's logic, the only way to restore competitiveness was to force British wages and prices down by that amount. The attempt to do so — beginning with coal miners' wages — produced the General Strike of 1926, a decade of unemployment above 10 per cent, and the permanent loss of British export markets. Keynes wrote a pamphlet titled *The Economic Consequences of Mr Churchill*. He was right. Churchill later called it the worst decision of his life.

> KEY INSIGHT — THE COST OF DEFENDING A WRONG EXCHANGE RATE
>
> Britain 1925–31 is the textbook case, but the pattern repeats endlessly: Mexico 1994, Thailand 1997, Argentina 2001, the UK again in 1992, Egypt 2016 and 2022, Nigeria 2023. A country pegs its currency too high, the market disagrees, and the government spends its reserves and raises interest rates to defend a number. The defence always fails eventually, and the country ends up with the devaluation it was trying to avoid *plus* a recession, minus its reserves.
>
> India learned this in 1966 and again, decisively, in 1991. Chapter 36.

The Depression and the collapse into blocs

The crash of 1929 turned into the Great Depression partly because the gold standard transmitted it. A country losing gold had to raise interest rates in a slump — exactly the wrong medicine. Between 1929 and 1932 world trade fell by roughly two-thirds.

Countries escaped one by one, and the timing is revealing: *the earlier a country left gold, the earlier it recovered.* Britain left in September 1931 and was growing by 1933. The US devalued in 1933–34. France, Switzerland, the Netherlands and others in the "gold bloc" held on until 1936 and suffered the longest depressions in the developed world.

What replaced the single system was fragmentation: the Sterling Area, the French gold bloc, the German barter system under Hjalmar Schacht, Japan's yen bloc. Competitive devaluations — "beggar-thy-neighbour" — and the Smoot–Hawley tariff of 1930 completed the destruction. Trade became bilateral, political and militarised.

> THE UNCOMFORTABLE PART — AND THE REASON BRETTON WOODS HAPPENED
>
> The men who met in 1944 to design the post-war monetary system were not economists arguing about theory. They were people who had watched monetary breakdown produce the 1930s, and the 1930s produce Hitler. The founding assumption of the Bretton Woods system — and of the IMF, the World Bank and later the WTO — is that **monetary disorder causes war**.
>
> Keep this in mind whenever anyone discusses "breaking the dollar system". The current arrangement is deeply unfair in ways this report will document at length. It is also the only period in modern history without a great-power war, and the people who built it built it for that reason. A serious argument for replacing it has to explain what replaces the stability too, not just the injustice.

CHAPTER NINE

Bretton Woods, 1944: The Conference That Chose the Dollar

For three weeks in July 1944, while the war was still being fought, 730 delegates from 44 nations met at a hotel in New Hampshire and designed the monetary system the world still partly lives in. Two men dominated it. The one with the better idea lost.

The setting matters. By 1944 the United States held roughly two-thirds of the world's monetary gold, produced about half of global manufacturing output, was the only major economy whose industrial base had not been bombed, and was creditor to every country in the room. Britain, the incumbent, was effectively bankrupt and dependent on American Lend-Lease.

Keynes versus White

Table 9.1 — Two plans for the post-war world

	The Keynes Plan (Britain)	The White Plan (United States)
Reserve asset	A new supranational unit, the *bancor*, issued by an International Clearing Union. No country's currency.	The US dollar, fixed to gold at $35/oz. Other currencies fixed to the dollar.
Who adjusts?	**Both** deficit and surplus countries. Persistent surpluses would be taxed, forcing creditors to spend or lend.	**Deficit countries only.** Surplus countries face no obligation.
Size of the fund	~$26 billion of credit capacity	~$8.8 billion
Underlying logic	Trade imbalances are a shared problem; the creditor is half the cause	Deficits reflect bad domestic policy; discipline the borrower
Outcome	Rejected	**Adopted, with modifications**

John Maynard Keynes led the British delegation; Harry Dexter White was the US Treasury's chief international economist and chaired the drafting.

White won because America held the gold and the guns. But Keynes's central objection has aged extraordinarily well, and it is worth stating precisely because it is the intellectual foundation of every serious critique of the dollar system since.

> IN SIMPLE WORDS — WHY KEYNES WAS RIGHT
>
> Imagine a group of friends who trade with each other. One friend keeps selling and never buys. He accumulates everyone else's IOUs. The others run out of money and must borrow from him. Whose fault is the imbalance?
>
> The Bretton Woods answer — and still the IMF's answer — is: the borrowers'. They must cut spending, devalue, accept austerity. The surplus country is doing nothing wrong.
>
> Keynes said this is arithmetically absurd. Every deficit is somebody's surplus. If only deficit countries adjust, the world is permanently biased towards contraction: everyone cuts, nobody spends, demand collapses. He proposed penalising persistent surpluses to force symmetric adjustment.
>
> Look at the world in 2026: Germany, China, the Netherlands, Taiwan, Saudi Arabia and Singapore run vast structural surpluses and face no pressure whatsoever, while deficit countries from Greece to Sri Lanka to Argentina are subjected to programmes. Keynes lost the argument in 1944 and the world has been arguing about it ever since.

What was actually built

- **The dollar pegged to gold** at $35 per ounce, convertible on demand — but only for foreign central banks, never for private individuals.
- **Every other currency pegged to the dollar** within a ±1 per cent band, adjustable only in case of "fundamental disequilibrium" and with IMF approval.
- **The IMF** to lend short-term to countries with balance-of-payments trouble, with voting power proportional to financial contribution — which is why the US retains an effective veto to this day.
- **The IBRD** (World Bank) for reconstruction and, later, development lending.
- **Capital controls permitted and expected.** This is the forgotten pillar. Bretton Woods assumed money would *not* move freely across borders. Without that assumption the fixed rates were unsustainable, as everyone discovered in the 1960s.

Figure 1 Share of global official foreign-exchange reserves, 1899–2026

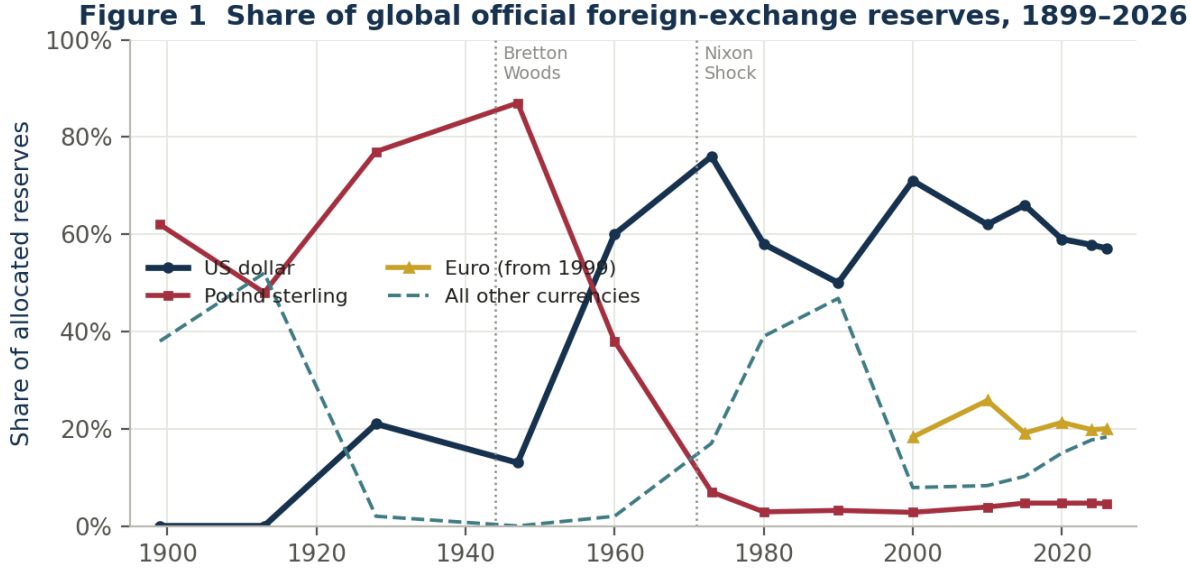

Figure 1. The handover. Sterling's collapse and the dollar's rise were not simultaneous — the dollar had already overtaken sterling in reserves by the 1950s, but sterling's residual share persisted for two more decades on the strength of the Sterling Area's institutional arrangements. Note also that the "all other currencies" line is higher in 2026 than at any point since the 1980s: the erosion is real, but it is going into many small currencies, not into one challenger. Sources: Eichengreen & Flandreau historical series; IMF COFER.

India at Bretton Woods

India attended as a British colony — still two and a half years from independence — but with its own delegation, led by Sir Jeremy Raisman and including Sir C.D. Deshmukh, who would become the first Indian Governor of the RBI and later Finance Minister. India was a founding member of both the IMF and the World Bank.

The Indian delegation raised one issue with unusual force: the **sterling balances**. By 1945 Britain owed India roughly £1.3 billion — about a fifth of Britain's total external debt, accumulated because India had supplied the Allied war effort on credit. India wanted these balances made convertible and available. Britain refused, and after independence the balances were released only slowly, in blocked accounts, on terms Britain set, and were substantially eroded by sterling's devaluations in 1949 and 1967.

> CASE STUDY — THE LESSON INDIA PAID FOR TWICE
>
> India entered independence with a claim on Britain worth several years of its own government budget, and could not spend it. The money existed, was legally owed, and was useless, because it was denominated in a currency someone else controlled and held in a system someone else administered.
>
> Precisely this problem recurred in 2022, when roughly $300 billion of Russian central bank reserves — legally owned, properly held — were frozen by the countries whose currencies they were denominated in. Different century, different politics, identical mechanism.

> This is why the dollar question is not an abstract one for India. Reserves held in another country's currency are, in the final analysis, held at that country's pleasure. Chapter 16 develops this fully.

CHAPTER TEN

The Nixon Shock: 15 August 1971

On a Sunday evening, pre-empting the most popular programme on American television, the President of the United States announced that the dollar was no longer convertible into gold. It was described as temporary. It has now lasted fifty-five years, and every currency on earth today is a descendant of that announcement.

To understand 1971 you need one idea, and it was identified in 1959 by a Belgian economist at Yale named Robert Triffin. He told the US Congress that the Bretton Woods system contained a contradiction that would destroy it, and gave a rough date. He was almost exactly right.

IN SIMPLE WORDS — THE TRIFFIN DILEMMA

The world needs dollars. Trade is growing, and everyone settles in dollars, so the amount of dollars the world needs grows every year.

How does the world get dollars? Only one way: America must send out more dollars than it takes in — that is, run a **deficit**. Americans buy foreign goods, and foreigners keep the dollars.

But every dollar America sends abroad is a claim on the gold in Fort Knox. The gold does not grow. So the longer the system runs, the more dollars there are chasing the same gold, and the more obvious it becomes that America cannot honour the promise.

Here is the trap in one sentence: **if America stops running deficits, world trade strangles for lack of dollars; if America keeps running deficits, confidence in the dollar's gold backing eventually collapses.** There is no third option. The system that supplies the world's money must undermine itself to do so.

Remember this. It applies to *any* single national currency serving as world money — including the yuan, and including the rupee. It is the deepest reason why no country can simply "decide" to become the reserve issuer, and it appears again in Chapter 20 and Chapter 40.

How the crisis actually unfolded

1959
Triffin testifies before Congress. Foreign dollar claims first approach the level of US gold reserves.

1960
Gold hits $40 in London — above the official $35. The London Gold Pool is created by eight central banks to hold the price down.

1965
Charles de Gaulle publicly denounces America's "exorbitant privilege" and begins converting French dollar holdings into gold, reportedly sending warships to collect it.

1965–68
Vietnam War and Great Society spending together. US deficits widen sharply; inflation begins.

Mar 1968
The Gold Pool collapses. A two-tier system is created: $35 official for central banks, a free market price for everyone else.

1969
The IMF creates Special Drawing Rights (SDRs) — an attempt to build Keynes's bancor after all. Too small, too late.

Aug 1971
Britain requests conversion of $3bn into gold. US gold reserves have fallen from ~20,000 to ~8,100 tonnes; foreign dollar claims are roughly four times that.

15 Aug 1971

Nixon, after a secret weekend at Camp David with Treasury Secretary John Connally and Fed Chairman Arthur Burns, closes the gold window, imposes a 90-day wage-price freeze and a 10% import surcharge.

Dec 1971

Smithsonian Agreement: gold revalued to $38, bands widened. Nixon calls it "the most significant monetary agreement in the history of the world." It lasts fourteen months.

Mar 1973

The major currencies float. Bretton Woods is over.

KEY NUMBERS

US gold reserves, 1950: ~20,000 tonnes (about 2/3 of world official gold). US gold reserves, 1971: ~8,100 tonnes. Foreign dollar claims, 1971: roughly $60–80 billion against gold worth about $10 billion at the official price. The promise was already impossible; the only question was who would say so first.

What Connally said

When European finance ministers protested at the Rome G10 meeting later that year, US Treasury Secretary John Connally delivered the most honest sentence in the history of international finance:

"The dollar is our currency, but it's your problem."

It was not a joke. It was an accurate description of an asymmetry that persists in 2026. When the Federal Reserve raises interest rates to control American inflation, capital flows out of emerging markets, their currencies fall, their import bills rise and their debt service costs increase. None of those countries has a vote at the Federal Reserve. The Fed's legal mandate covers American employment and American prices, and nothing else. It is not being malicious; it is following the law. That is precisely the problem.

THE UNCOMFORTABLE PART — WHAT 1971 ACTUALLY DID

Many people believe 1971 was the moment money "became fake". Two corrections are needed.

First, the gold link had been largely fictional for years; 1971 admitted a reality rather than creating one.

Second, and more importantly, 1971 did not *weaken* the dollar's position. It strengthened it, permanently. Under Bretton Woods, America was constrained: it could be asked for gold, and the gold could run out. After 1971 the dollar was backed by nothing that could be exhausted. The United States acquired what no previous reserve issuer in history had ever had — **the ability to supply the world's money without limit and without redemption**. Every other country still had to earn dollars. America could create them.

This is the single most consequential fact in modern geopolitics and it is the reason the next three chapters exist.

CHAPTER ELEVEN

The Petrodollar

If the dollar was no longer backed by gold, what was it backed by? Part of the answer arrived in 1974, wearing a suit, in Riyadh.

In October 1973, in response to Western support for Israel in the Yom Kippur War, the Arab members of OPEC imposed an embargo and then quadrupled the price of crude oil from about $3 to about $12 a barrel. Oil-importing economies were devastated. Oil-exporting states were suddenly awash in more money than they could possibly spend — "petrodollars".

In July 1974 US Treasury Secretary William Simon travelled to Saudi Arabia. The arrangement that emerged — parts of it formal, parts informal, and details still disputed by historians — had a simple shape:

- Saudi Arabia would continue to price and sell its oil **in US dollars**.
- Saudi surplus revenues would be **recycled into US Treasury securities**, initially through a confidential arrangement in which Saudi holdings were excluded from the usual public country-by-country reporting — a secrecy that lasted until 2016.
- In return, the United States provided **military equipment and a security guarantee** for the Saudi state.

Other OPEC members followed the dollar pricing convention. Oil — the one commodity every country on earth must buy — now had a dollar price tag.

IN SIMPLE WORDS — WHY OIL PRICING MATTERS SO MUCH

India imports roughly 85 per cent of the crude oil it consumes. To buy it, India must first obtain dollars. It obtains them by exporting goods and services to the world, or by attracting foreign investment, or by borrowing.

Now notice what this means. **India must earn dollars in order to buy oil from Iraq.** Neither India nor Iraq is American. The United States is not a party to the transaction. And yet a transaction between two non-American countries generates demand for American money.

Multiply this by every oil importer in the world and you have a permanent, structural, global demand for dollars that has nothing to do with anyone wanting to buy anything American. That demand allows the United States to issue dollars that the world absorbs without complaint. This is what "the petrodollar system" means.

MYTH CHECK — IS THE PETRODOLLAR DEAD?

Claim: "The US–Saudi petrodollar agreement expired in June 2024 and the dollar's oil monopoly is over."

Reality: This claim circulated very widely in 2024 and is substantially wrong. There was no single fifty-year treaty with an expiry date; there was a 1974 Joint Commission on Economic Cooperation, whose associated arrangements lapsed quietly in 1994 without incident. Saudi Arabia has continued to price the overwhelming majority of its crude in dollars.

What is true: the edges are genuinely fraying. China has bought some Saudi and Russian crude in yuan. India has settled some Russian crude in dirhams and, in smaller volumes, in rupees. Russia sells almost all of its oil in non-dollar currencies since 2022 — because it has no choice. The Shanghai International Energy Exchange runs a yuan-denominated crude contract.

The honest position: perhaps 10–20 per cent of global crude trade now settles outside the dollar, up from near zero in 2020. That is a real and rapid change. It is also not the same thing as the dollar losing oil, and most of it is driven by sanctions rather than preference. See Chapter 42 for what would have to change for this to matter systemically.

The recycling machine

The petrodollar's second half is at least as important as the first. When Saudi Arabia earns $100 billion, it cannot spend it domestically without enormous inflation. So it invests. And the deepest, most liquid, most legally secure market on earth for parking large sums is the US Treasury market.

So the money flows out of America to buy oil, and flows straight back into America to buy government bonds. The oil exporter gets a safe asset; the United States gets its deficit financed at low interest rates. Both sides are satisfied, and the loop closes.

> **KEY INSIGHT — THE PATTERN THAT REPEATS**
>
> This recycling loop is not unique to oil. It is the general mechanism by which the dollar system sustains itself, and it has run three times with different partners:
>
> **1970s–80s:** OPEC surpluses → US Treasuries.
> **1990s:** Japanese surpluses → US Treasuries.
> **2000s–present:** Chinese surpluses → US Treasuries.
>
> In each case a country ran a large trade surplus with the US, accumulated dollars, and had nowhere better to put them. The surplus country funds the deficit country's consumption of its own goods. It is a strange arrangement, and it is why the phrase "America is in debt to China" is misleading — China's dollar holdings are less a lever over America than a hostage to it. Chapter 31 explains why.

CHAPTER TWELVE

Eurodollars: The Hidden Engine

There are more dollars outside the United States than the Federal Reserve directly controls, created by banks that are not American, in jurisdictions the Fed does not regulate. This offshore dollar system is the least understood and arguably most important part of the entire architecture.

Start with the name, because it is misleading. A **eurodollar** has nothing to do with the euro currency and need not be in Europe. It is simply *a dollar deposit held at a bank outside the United States*. A dollar account at a bank in Singapore, London, Tokyo or Mumbai is a eurodollar.

Where they came from

The origin is a Cold War irony. In the 1950s the Soviet Union earned dollars from selling gold and raw materials but was reluctant to hold them in New York, where they could be frozen. So Soviet dollars were deposited at Banque Commerciale pour l'Europe du Nord in Paris — telex address EUROBANK — and at the Moscow Narodny Bank in London.

Britain then supplied the second ingredient. After the 1957 sterling crisis, the Bank of England restricted London banks from financing non-UK trade in sterling — but permitted them to do so in dollars, with almost no regulation, no reserve requirements and no deposit insurance. London effectively created an unregulated offshore dollar market and became its capital, a position it retains.

> IN SIMPLE WORDS
>
> Imagine the Reserve Bank of India controls how many rupees exist in India. Now imagine banks in Dubai start accepting rupee deposits and making rupee loans to each other. Those rupees circulate, multiply through lending, and settle trades — and the RBI has no authority over any of it. It cannot set the interest rate on them, cannot inspect the books, and cannot demand reserves.
>
> That is the eurodollar system, except with dollars, at a scale of tens of trillions. The world's most important currency is substantially created and traded outside the jurisdiction of the institution that issues it.

Why this matters more than most people realise

1. It made the dollar unstoppable. Countries could use dollars without touching the American banking system, obtain dollar loans without American approval, and settle trades in dollars without American involvement. This is exactly what a currency needs to become universal, and it happened in the 1960s and 70s while other countries were still running strict capital controls.

2. It hardwired the world's borrowing into dollars. A Brazilian firm, an Indian airline or a Turkish developer borrows in dollars because that is where the deep, cheap credit is. The BIS estimates dollar credit to non-bank borrowers outside the United States at roughly $13 trillion. Those borrowers earn revenue in reais, rupees and lira — but owe dollars.

3. It gives the Federal Reserve global reach it never asked for. When the Fed raises rates or the dollar strengthens, every one of those borrowers gets poorer in their own currency, simultaneously, worldwide.

> THE UNCOMFORTABLE PART — THE SWAP LINES
>
> In a crisis, offshore banks holding dollar liabilities can find themselves unable to obtain dollars at any price — the "global dollar shortage". This happened in 2008 and again in March 2020.

The Federal Reserve's response was to open **central bank swap lines**: it lends dollars directly to selected foreign central banks, which lend on to their banks. At the peak of the 2008 crisis these swaps exceeded $580 billion. In 2020 they exceeded $440 billion.

Now note the crucial detail. The Fed has *standing, unlimited* swap lines with exactly five central banks: the ECB, Bank of England, Bank of Japan, Swiss National Bank and Bank of Canada. Everyone else — including India, Brazil, Indonesia and South Africa — may be offered temporary lines at America's discretion, or may not.

This is the real hierarchy of the world monetary system, and it is not in any treaty. There is an inner circle with unconditional access to unlimited dollars in a crisis, and there is everyone else, who must either hold enormous precautionary reserves at low returns or go to the IMF and accept conditions. **India's $703 billion of reserves is, in significant part, the price India pays for not being in the inner circle.** That is a real cost: those reserves earn perhaps 2–4 per cent, while the capital could earn far more deployed domestically. Chapter 37 puts a number on it.

KEY NUMBERS — THE OFFSHORE DOLLAR SYSTEM

Dollar credit to non-bank borrowers outside the US: roughly **$13 trillion** (BIS). Daily global FX turnover: about **$9.6 trillion**, of which the dollar is on one side of roughly **88%** of trades. Approximately **half** of all cross-border bank claims worldwide are denominated in dollars. The US economy is about a quarter of world GDP.

PART III

Why America Won

Not because it is virtuous, and not only because it is powerful. Seven specific, identifiable, hard-to-replicate advantages — and a bill that America itself pays for them.

CHAPTER THIRTEEN

The Seven Pillars of Dollar Dominance

Any country wanting to displace the dollar must replicate all seven. Most challengers have three or four. China has five. Nobody has seven.

Figure 2 What central banks actually hold (2026 Q1)

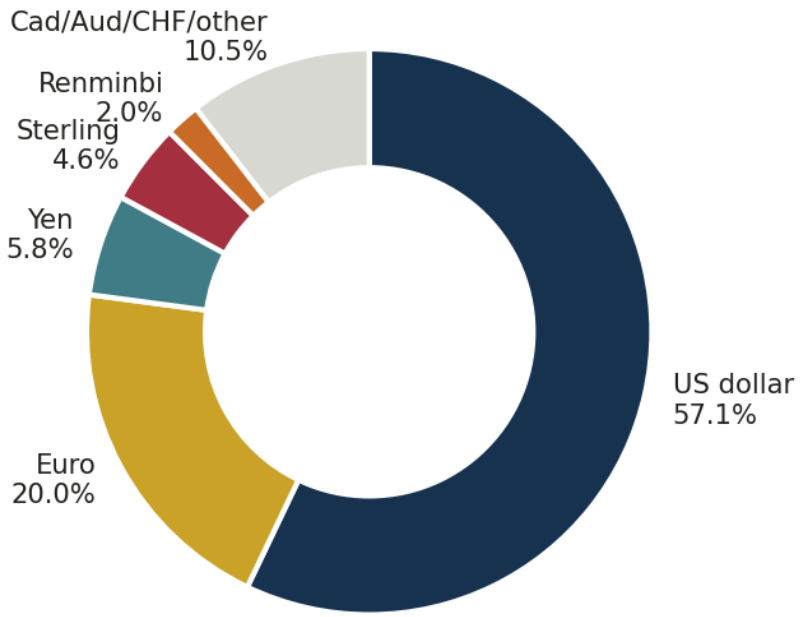

Figure 2. The dollar's share has fallen from 71% in 2000 to 57.1% in 2026 Q1 — but note where it went. Not to the euro (roughly flat at 20%) and not to the renminbi (2.0%). It went to the "other" slice: Australian and Canadian dollars, Swiss francs, Korean won, Singapore dollars and Nordic currencies. Central banks are diversifying, not defecting. Source: IMF COFER, 2026 Q1.

Pillar 1 — The deepest financial market ever built

The US Treasury market is about $29 trillion in size with daily trading volume around $900 billion. This is not a bragging statistic; it is the single most important pillar and it is worth understanding why.

A reserve currency must give central banks somewhere to *put* the money. A Saudi sovereign fund with $50 billion needs to buy an asset without moving its price, and sell it in a crisis without a discount. Only the Treasury market can absorb that. Germany's Bund market is roughly $2 trillion — and Germany's fiscal rules mean it is *shrinking*. China's government bond market is large but foreigners cannot freely enter and exit it.

> IN SIMPLE WORDS
>
> Being a reserve currency is not just about being trusted. It is about having a big enough warehouse. If the world wants to store $12 trillion of savings, somebody has to issue $12 trillion of safe bonds for them to buy. Only the United States issues that much, and paradoxically, this means **America's enormous debt is not a weakness of the dollar system — it is the product** the system sells. If America ever balanced its budget and stopped issuing debt, the world would have nowhere to put its savings, and the system would break.

Pillar 2 — Rule of law and property rights

If you are a Nigerian central banker or a Chinese exporter, the question is not "do I like America?" It is "if there is a dispute, can I win in court against a powerful counterparty?" In the United States, generally yes. Contracts are enforced, courts are independent enough, and foreign plaintiffs win against American firms and even against the government.

Compare: in China, the courts are constitutionally subordinate to the Communist Party. This is not a moral judgement, it is a structural fact, and it has a price measured in basis points on every loan and a ceiling on how much foreign money will ever sit in Chinese assets. **The single biggest obstacle to the renminbi is not economics. It is the absence of an independent judiciary.**

Pillar 3 — Full convertibility and open capital account

You can move a billion dollars into or out of the United States tomorrow, for any reason, without permission. This freedom is what makes a currency usable as a reserve. China restricts capital outflows; India restricts them substantially. Every restriction, however sensible domestically, is a reason for a foreign central bank not to hold your currency.

Pillar 4 — Network effects and incumbency

Covered in Chapter 6, but the practical implications deserve listing: commodity contracts are written in dollars, so hedging instruments exist in dollars, so trade finance is in dollars, so banks hold dollar liquidity, so correspondent banking runs through New York, so sanctions bite, so everyone stays. Each layer locks the next.

Figure 3 The dollar's grip on the plumbing of world trade, mid-2026

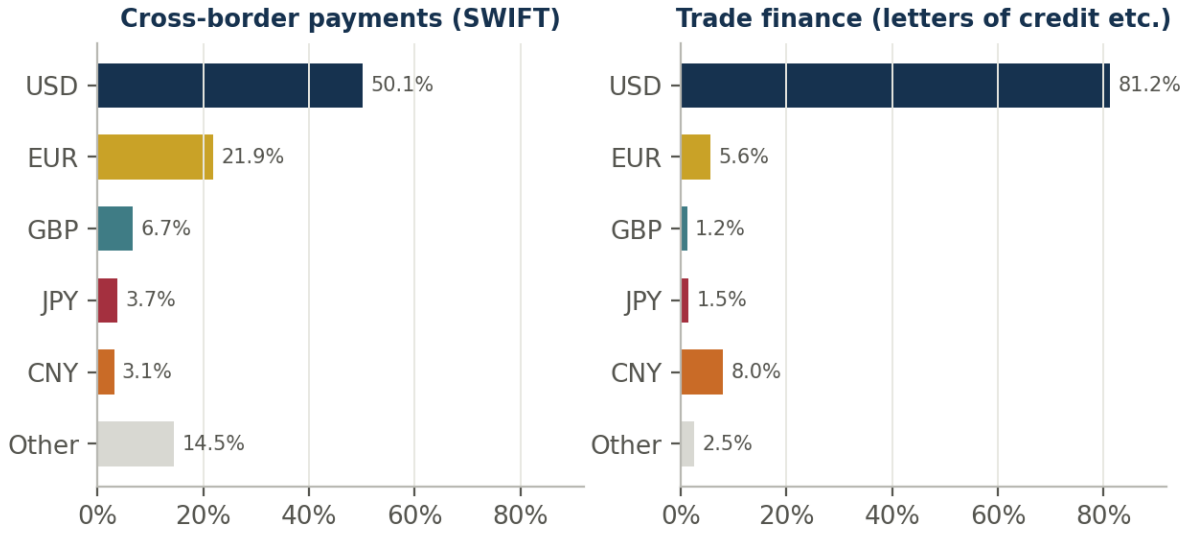

Figure 3. The gap between the two panels is the story. The dollar is about half of general cross-border payments — a share that has eroded. But in trade finance, the credit that actually moves physical goods, it is over 81%. Banks issue letters of credit in the currency they can fund and hedge, and that is still overwhelmingly the dollar. Source: SWIFT Global Currency Tracker, June 2026.

Pillar 5 — Military reach and security guarantees

The United States maintains roughly 750 military facilities in about 80 countries and defence treaties with over 50. This matters monetarily in two ways. First, allies who depend on American protection are structurally disinclined to undermine American finance — note that Japan, Korea, Germany and the Gulf states are simultaneously the largest dollar holders and the largest recipients of US security guarantees. Second, the US Navy secures the sea lanes through which oil and container traffic move; the currency of the power that guarantees the shipping tends to be the currency of the shipping.

Pillar 6 — Energy and food self-sufficiency

The shale revolution turned the United States into the world's largest oil and gas producer, making it a net energy exporter for the first time since 1952. It is also a massive net food exporter. This removes the classic vulnerability of a reserve issuer: America does not need to earn foreign exchange to feed or fuel itself. Compare China, which imports over 70 per cent of its oil and a large share of its soybeans, or India, which imports around 85 per cent of its crude.

Pillar 7 — Technology, universities and the innovation stack

The dollar is embedded in the world's software. Payment systems, clearing houses, financial databases, ratings agencies, index providers and the accounting standards themselves are American or Anglo-American. Beyond finance, the world's most valuable companies, most-cited universities and dominant platforms are disproportionately American, which means global capital wants dollar assets for reasons that have nothing to do with monetary policy.

Table 13.1 — Scorecard: who has which pillars (2026 assessment)

Pillar	USA	Euro area	China	Japan	India
1. Deep, unified safe-asset market	Full	Partial	Partial	Partial	Weak
2. Independent courts, property rights	Full	Full	Weak	Full	Partial
3. Open capital account	Full	Full	Weak	Full	Partial
4. Network effects / incumbency	Full	Partial	Weak	Weak	None
5. Military reach & alliances	Full	Weak	Partial	Weak	Partial
6. Energy & food self-sufficiency	Full	Weak	Weak	Weak	Partial
7. Technology & institutional stack	Full	Partial	Partial	Partial	Partial
Total (Full = 1, Partial = 0.5)	**7.0**	**4.5**	**2.5**	**4.0**	**2.5**

Author's assessment. The euro scores second and has done for twenty-five years without closing the gap — which tells you the missing pillars are the hard ones.

CHAPTER FOURTEEN

Exorbitant Privilege: What America Actually Gets

The phrase was coined by a French finance minister in the 1960s and is usually used vaguely. This chapter itemises the benefits, with numbers where numbers exist.

1. Seigniorage — profit from printing

A $100 bill costs about 17 cents to produce. Roughly $2.4 trillion of US currency is in circulation and the Federal Reserve estimates that **close to half of it circulates outside the United States**. Foreigners have therefore handed over a trillion dollars of real goods and services in exchange for pieces of paper that cost a few hundred million dollars to print. That is an interest-free, perpetual loan from the rest of the world.

2. Borrowing more cheaply than anyone else

Because the world must hold dollar assets, demand for Treasuries is structurally higher than America's fiscal position alone would justify. Estimates of this "convenience yield" range from 25 to 80 basis points. On $29 trillion of marketable debt, even 50 basis points is roughly **$145 billion a year** in interest America does not pay — comparable to the entire federal education budget.

3. Deficits without tears

An ordinary country running a persistent current account deficit eventually runs out of foreign exchange and faces a crisis — India in 1991, Thailand in 1997, Sri Lanka in 2022. The United States has run a current account deficit every year since 1982 and has never faced a balance-of-payments crisis, because it pays for imports in money it creates.

> **IN SIMPLE WORDS**
>
> Imagine you could pay for your groceries with IOUs you write yourself, and the shopkeeper not only accepts them but keeps them in a drawer instead of cashing them — because he needs them to pay *his* suppliers. You would never run out of money. You could buy more than you produce, indefinitely. That is the American position, and it is not available to anyone else.

4. The negative net investment income puzzle

Here is a genuinely strange fact that most people find hard to believe. The United States owes the world far more than the world owes it — its net international investment position is about minus $26 trillion. And yet America *earns* more from its foreign assets than it pays on its foreign liabilities, in most years.

The reason: foreigners buy low-yielding safe American assets (Treasuries, bank deposits), while Americans buy high-yielding risky foreign assets (factories, equity, private companies). America borrows short and safe, invests long and risky, and pockets the spread. Economists call this "the exorbitant privilege" in its narrow technical sense. The United States is, in effect, the world's hedge fund, funded by the world's savers.

5. Insulation from currency crises

Almost all US external debt is denominated in dollars. When the dollar falls, America's debt burden falls in real terms. When the Indian rupee falls, India's dollar debt burden *rises*. The same event helps one and hurts the other. This asymmetry — "original sin" — means the US is structurally protected from the crisis mechanism that has destroyed dozens of other economies.

6. Extraterritorial legal and financial reach

Because dollar transactions ultimately clear through American banks, American law reaches any transaction anywhere that touches a dollar. This is the subject of Chapter 16 and is arguably the most valuable privilege of all.

7. Information

Dollar clearing means American authorities can see an enormous share of the world's financial traffic. This is a strategic asset of the first order and is almost never counted in these lists.

KEY NUMBERS — THE PRIVILEGE, QUANTIFIED

Benefit	Estimated annual value to the US
Seigniorage on offshore currency	$20–25 bn
Lower borrowing costs (50 bp on marketable debt)	~$145 bn
Net investment income despite negative NIIP	$100–250 bn
Ability to run a ~$900bn goods deficit without crisis	not directly monetisable, but decisive
Sanctions and legal reach	strategic, unpriceable

Ranges reflect genuine disagreement in the literature. Treat these as orders of magnitude, not precise measurements.

CHAPTER FIFTEEN

The Bill America Pays

Reserve status is not costless. Understanding what it costs America is essential, because these costs are precisely the reasons a rising power might decide it does not want the job.

1. A permanently overvalued currency

Global demand for dollars keeps the dollar stronger than trade fundamentals alone would justify — estimates range from 10 to 25 per cent overvaluation. A strong currency makes imports cheap (good for consumers) and exports expensive (bad for producers). The result is a structural handicap on American manufacturing that no amount of tariff policy fully offsets.

2. Deindustrialisation and its politics

US manufacturing employment peaked at about 19.5 million in 1979 and is roughly 12.8 million in 2026, while output rose — meaning fewer workers producing more. Automation is the larger cause, but an overvalued currency and a structural trade deficit are genuine contributors. The political consequences — the hollowing of industrial regions, the rise of economic nationalism, tariffs on allies — are now the dominant fact of American politics, and they trace in part to the currency's role.

Figure 4 US federal debt as a share of GDP, 1940–2026

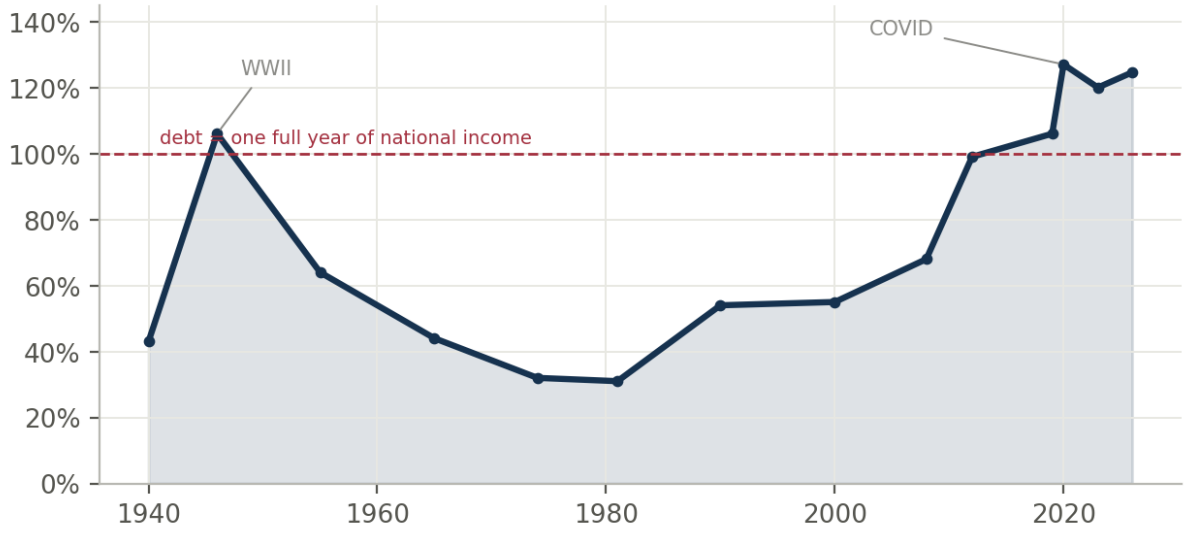

Figure 4. US federal debt reached about $39.9 trillion in August 2026, roughly 124% of GDP by the general-government measure — above the WWII peak, but with a critical difference: the WWII debt was owed almost entirely to Americans and was inflated away during two decades of growth. Today about 24% is owed abroad. Sources: US Treasury Fiscal Data; CEIC; CBO.

3. The Triffin Dilemma has not gone away

It has changed shape. Under Bretton Woods the constraint was gold. Today the constraint is *solvency perception*. To supply the world with safe dollar assets, America must keep issuing debt. But the more debt it issues, the more investors eventually question whether it can be serviced without inflation. The dilemma is the same: supplying the world's money requires behaviour that undermines confidence in the money.

KEY NUMBERS — THE FISCAL POSITION, AUGUST 2026

$39.9tn	~124%	~$1.0tn	Aa1	23.9%
Gross federal debt	General government debt / GDP	Annual net interest cost	Moody's rating after May 2025 downgrade	Of federal debt held abroad

Interest on the debt now exceeds the US defence budget. Moody's May 2025 downgrade removed the last AAA rating America held; S&P downgraded in 2011 and Fitch in 2023.

4. Financialisation

Being the world's banker draws national talent and capital into finance rather than engineering. The financial sector's share of US corporate profits rose from about 15 per cent in the 1950s to a pre-crisis peak above 40 per cent. Whether this is efficient specialisation or a misallocation is debated; that it is a consequence of reserve status is not.

5. Importing everyone else's problems

When any large economy has a crisis, capital rushes into dollar assets for safety. This *strengthens* the dollar precisely when American exporters are already facing a weakening world. America's currency appreciates during global recessions, which is the opposite of what a normal country experiences and the opposite of what its economy needs.

THE UNCOMFORTABLE PART — THE ARGUMENT CHINA ACTUALLY MAKES

When Chinese officials discuss internationalising the renminbi, they are notably careful. Beijing has never committed to full capital account liberalisation, and senior policymakers have repeatedly signalled that they do not want the renminbi to appreciate to the level that reserve status would imply.

Why? Because China's growth model depends on manufacturing competitiveness, and reserve status means a structurally strong currency, a structural trade deficit and the deindustrialisation that follows. China has watched what happened to American manufacturing and drawn the obvious conclusion.

This is the single most underrated fact in the de-dollarisation debate. **The main alternative to the dollar does not want the job on the terms the job is offered.** China wants to reduce its *dependence* on the dollar — which is a completely different and much more achievable objective than replacing it. Every serious analysis of the next twenty years has to start from that distinction, and Chapter 20 develops it.

CHAPTER SIXTEEN

The Weapon: Sanctions, SWIFT and the Cost of Using Power

Every time the dollar is used as a weapon it works, and every time it works it gives more countries a reason to leave. This is the central tension in the system today.

First, the mechanics, because the popular understanding is wrong in an important way.

What SWIFT actually is — and is not

SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a Belgian cooperative owned by its member banks. It carries roughly 45–50 million financial messages a day between more than 11,000 institutions in over 200 countries.

SWIFT does not move money. It is a messaging system — a very secure, very standardised telex. It tells Bank B that Bank A wants a payment made. The money itself moves through correspondent accounts and clearing systems.

This distinction matters because it locates the real chokepoint. Being cut off from SWIFT is inconvenient — you can use telex, email or a rival network. Being cut off from **dollar clearing** is fatal, because virtually every dollar payment in the world ultimately settles through an account at a US bank or the Federal Reserve. There are only a few dozen banks with direct dollar-clearing access, and every one of them is subject to US law.

> IN SIMPLE WORDS
>
> Think of the dollar system as a single enormous building. Every dollar transaction, wherever in the world it appears to happen, eventually passes through one room in that building. The United States owns the building. It can refuse anyone entry.
>
> An Indian bank paying a Russian supplier in dollars is not doing an American transaction — but the payment still walks through that room. If the US says no, the payment does not happen, no matter what India or Russia want. This is what is meant by the **extraterritorial reach** of the dollar, and it is the most powerful non-military instrument any state has ever possessed.

The escalation ladder

Table 16.1 — Milestones in the weaponisation of the dollar

Year	Action	Significance
2005	Banco Delta Asia (Macau) designated over North Korean funds	Proof of concept: a $25m action froze Pyongyang out of the global system
2012	Iranian banks disconnected from SWIFT	First time SWIFT itself was used as a sanctions instrument against a state
2014	BNP Paribas fined **$8.9bn** for dollar transactions with Sudan, Iran, Cuba	A French bank punished by US courts for transactions legal in France — extraterritoriality made explicit
2018	US exits the Iran nuclear deal and reimposes secondary sanctions	European governments *opposed* the policy and their own companies complied anyway. Europe's INSTEX workaround handled almost nothing
2022	~$300bn of Russian central bank reserves immobilised; major banks cut from SWIFT	**The decisive event.** A G20 central bank's reserves frozen. Every reserve manager on earth revised their assumptions
2024–26	Windfall profits on frozen Russian assets directed to Ukraine; debate over outright confiscation continues	Moves the question from "can reserves be frozen?" to "can they be taken?"

THE UNCOMFORTABLE PART — WHAT FEBRUARY 2022 ACTUALLY CHANGED

Before 2022, a central bank reserve manager believed that holding US Treasuries and euro deposits was the closest thing to a risk-free position available. Sanctions happened to small or pariah states. Russia was a G20 member, the world's largest energy exporter, and had spent a decade deliberately building reserves as insurance.

Roughly half of those reserves were frozen in a weekend.

The lesson every finance ministry drew — in Riyadh, Delhi, Brasília, Ankara, Jakarta and Beijing — was not "Russia was wrong". It was narrower and colder: **reserves held in another country's currency are not assets. They are permissions.** They are yours until the issuer decides otherwise, and the decision can be taken faster than you can react.

You can see the response in the data immediately. Central bank gold purchases averaged about 470 tonnes a year in 2010–21. In 2022 they hit 1,082 tonnes, and have stayed above 1,000 tonnes in every year since — the highest sustained level since the 1960s. In the 2026 World Gold Council survey, a record 45 per cent of reserve managers said they expected to add gold in the next twelve months, and 89 per cent expected global central bank holdings to rise.

Gold's advantage is precise and it is the only one that matters here: *it is nobody's liability, and if it sits in your own vault, nobody can switch it off.*

The dilemma America cannot escape

Here is the strategic bind, stated plainly.

The power of the dollar comes from universal use. Universal use comes from confidence that using the dollar is safe and apolitical. Using the dollar as a weapon proves that it is neither. Every successful use of the weapon therefore degrades the asset that makes the weapon possible.

But an unused weapon has no deterrent value, and American policymakers face real adversaries and domestic pressure to act. So the weapon gets used, and the erosion continues, and each side of the argument in Washington is correct on its own terms.

THE MEASURABLE CONSEQUENCES, 2022–2026

- Central bank gold buying more than doubled and stayed there; gold has overtaken US Treasuries as the second-largest reserve asset by market value at several points in 2025–26.
- Russia–China trade now settles overwhelmingly in rubles and yuan — Russian officials have cited figures above 90%, and in some statements above 99%.
- China's CIPS payment system reached a record daily average of RMB 920.5bn (~$133.5bn) in March 2026, up 20% year on year, with 1,791 participating institutions.
- India settles part of its Russian oil imports in dirhams and rupees, and has opened 156 Special Rupee Vostro Accounts with banks from 30 countries.
- The mBridge multi-CBDC platform (China, UAE, Saudi Arabia, Thailand, Hong Kong) passed $55bn of cumulative transactions by February 2026.

And yet: the dollar's reserve share *rose* from 56.42% to 57.13% between 2025 Q4 and 2026 Q1, and its SWIFT payment share remains near 50%. Both things are true. The system is being worked around at the margins by the countries that must, while remaining the default for everyone who has a choice.

MYTH CHECK

Claim: "Countries are dumping the dollar and its collapse is imminent."

Reality: The dollar's reserve share has declined from 71% (2000) to 57% (2026) — a real fall of 14 percentage points over 26 years, or roughly half a point a year. At that rate it reaches 50% around 2040. That is meaningful erosion. It is not collapse, and it is not being replaced by a single rival: the euro is flat, the renminbi is at 2.0%. The correct description of what is happening is *diversification into many currencies and into gold*, not *substitution by a challenger*. Anyone telling you the dollar collapses next year has been saying so since 1971.

PART IV

Why Everyone Else Failed

Sterling had the empire. The euro had the economy. The yen had the savings. The yuan has the factories. Each failed for a different, specific and instructive reason.

CHAPTER SEVENTEEN

Sterling: How a Reserve Currency Actually Dies

The only completed example in modern history. It took seventy years, and the economic decline came decades before the monetary decline — which is the most important thing about it.

The dates that matter are not the ones people expect.

c. 1872
The United States overtakes Britain as the world's largest economy. Sterling continues to dominate global finance for another **seventy years**.

1914–18
Britain sells foreign assets and borrows heavily from New York. From creditor to debtor in four years.

1925–31
Return to gold at the wrong rate, then forced off it. Sterling loses its claim to be as good as gold.

1939–45
Britain finances the war by borrowing from the Empire — accumulating the "sterling balances", including £1.3bn owed to India. Lend-Lease makes Britain financially dependent on Washington.

1947
Under the terms of the US loan, Britain makes sterling convertible on 15 July. Reserves drain so fast that convertibility is suspended **within five weeks**.

1949
Devaluation from $4.03 to $2.80 — a 30% cut.

1956
Suez. Britain and France invade Egypt. The US refuses IMF support and threatens to sell sterling unless Britain withdraws. Britain withdraws. The financial lever, not the military one, ends the operation.

1967
Devaluation to $2.40. Harold Wilson's "the pound in your pocket has not been devalued" becomes a byword for political dishonesty about currencies.

1968–74
The Basel Agreements: other countries are effectively paid to keep holding sterling while the Sterling Area is wound down.

1976
Britain applies to the IMF for a $3.9bn loan — the largest in the Fund's history to that date — and accepts conditions. The end.

KEY INSIGHT — THE SEVENTY-YEAR LAG

America was the bigger economy from 1872. Sterling was still 87% of global reserves in 1947. **Monetary dominance outlives economic dominance by generations.**

This cuts both ways for anyone thinking about China and the dollar. China may have overtaken the US on some measures years ago; on the sterling precedent, that tells you almost nothing about when — or whether — the renminbi becomes dominant. But it also means that by the time a currency's decline becomes obvious, the underlying shift happened decades earlier and cannot be reversed.

What actually killed it

Five causes, in rough order of importance:

1. **Two wars that converted Britain from the world's creditor into a debtor.** This is the fundamental cause. A reserve currency issuer that owes more than it is owed has lost the basis of its position.
2. **An American alternative that was ready.** Sterling did not fall into a vacuum. The dollar existed, New York was deep and liquid, and Bretton Woods had institutionalised it. Note the contrast with today: there is no equivalently ready alternative to the dollar.
3. **Repeated devaluations that destroyed the store-of-value function.** 1931, 1949, 1967. Each one taught foreign holders the same lesson.
4. **Suez, 1956.** The political shock that proved Britain was no longer sovereign in its own foreign policy. Reserve currencies rest on the perception of power as much as on economics.
5. **The end of empire.** The Sterling Area was substantially a coercive arrangement: colonies were required to hold reserves in London. Decolonisation removed the captive demand.

> CASE STUDY — SUEZ, AND WHAT FINANCIAL POWER LOOKS LIKE
>
> In 1956, Britain and France, with Israel, moved to seize the Suez Canal after Nasser nationalised it. Militarily the operation was succeeding.
>
> The United States objected. It did not threaten force. It blocked Britain's access to IMF emergency funding and let it be known that the Treasury could sell its sterling holdings, which would have forced an immediate devaluation. Britain's reserves were already falling at a rate that gave it weeks.
>
> Britain withdrew. Anthony Eden resigned within two months. Historians generally date the end of Britain as an independent great power to that episode.
>
> The relevant point for this report: *no shot was fired at a British soldier, and the operation still ended.* Financial dependency is a form of sovereignty transfer, and it is normally invisible until the moment it is used. This is the strongest argument for de-dollarisation efforts, and it is why countries pursue them even when the economics look unfavourable.

CHAPTER EIGHTEEN

The Euro: Built Well, Still Second

A currency for 350 million people in twenty countries, backed by an economy comparable to America's, fully convertible, with independent courts and a credible central bank. It has been the world's number two for twenty-seven years and has not moved. Understanding why is the best available guide to what a challenger actually needs.

The euro launched in 1999 with genuine momentum: it took over the legacy shares of the Deutsche Mark, French franc and others, reached about 25.8 per cent of global reserves by 2009, and prompted serious speculation that it would rival the dollar within a generation.

Then the eurozone crisis of 2010–12 happened, and its reserve share fell back to around 19–20 per cent, where it has essentially remained ever since. In 2026 Q1 it was 20.03 per cent.

The four structural flaws

1. There is no European safe asset

This is the decisive one. When you buy a US Treasury you buy a claim on the United States. When you buy a euro-denominated government bond you must choose: a German Bund, an Italian BTP, a Greek bond, a French OAT. These are *not the same asset*. In 2011–12 German yields went *negative* while Italian yields exceeded 7 per cent — in the same currency.

A reserve manager wanting to hold €50 billion of "Europe" cannot. The German bond market is about $2 trillion and shrinking under Germany's constitutional debt brake; the safest asset is the scarcest. The eurozone's aggregate debt is large, but it is *fragmented across nineteen credit risks*, and fragmentation is the enemy of reserve status.

> IN SIMPLE WORDS
>
> Imagine India had one currency but each state issued its own bonds and could default separately. Maharashtra bonds would be safe; Bihar bonds would be risky; both would be in rupees. Now imagine a foreign central bank wanting to hold "₹4 lakh crore of India". Which state's bonds does it buy?
>
> That is the euro's problem. It has a single currency without a single treasury. The euro is a currency without a country.

2. Monetary union without fiscal union

The eurozone shares a central bank but not a budget. Italy cannot devalue and cannot expect automatic fiscal transfers from Germany. When a shock hits one country, the only adjustment channel is "internal devaluation" — cutting wages and prices. Greece's economy contracted by about 25 per cent between 2008 and 2016 and youth unemployment exceeded 50 per cent. That is the gold standard's cruelty, reimposed in 2010, and it is why the euro is politically fragile in a way the dollar is not.

3. Germany's surplus and the demand problem

A reserve currency issuer must supply its currency to the world, which means running deficits (Chapter 10). The eurozone as a whole runs a large current account *surplus* — Germany's alone has exceeded 6 per cent of GDP for years. Structurally, the eurozone *absorbs* the world's savings rather than supplying safe assets to them. You cannot be the world's reserve issuer while running a surplus. The arithmetic forbids it.

4. No unified foreign or defence policy

Reserve currencies rest partly on the perception that the issuer can defend its interests. The EU has twenty-seven foreign policies. It could not enforce its own position on Iran in 2018 — European governments opposed US secondary sanctions, built a workaround called INSTEX, and their own companies complied with Washington anyway because their dollar access mattered more. That episode did more damage to euro credibility than any economic statistic.

Table 18.1 — The euro against the dollar, 2026

Measure	Euro area	United States
GDP (nominal)	~$17tn	~$30.5tn
Population	~350m	~342m
Share of global FX reserves	20.0%	57.1%
Share of SWIFT payments	21.9%	50.1%
Share of trade finance	5.6%	81.2%
Single unified government bond market	No	Yes ($29tn)
Single treasury / fiscal authority	No	Yes
Single foreign & defence policy	No	Yes

Note the euro's payments share (21.9%) is far above its reserve share (20.0%) and vastly above its trade finance share (5.6%). Much euro payment volume is intra-European.

> **KEY LESSON FOR INDIA**
>
> The euro proves that economic size, convertibility, rule of law and an independent central bank are **necessary but not sufficient**. What the euro lacks — a single deep safe-asset market, a unified fiscal authority, and a coherent geopolitical will — is exactly what India also lacks, in different form. Any Indian strategy that focuses only on trade settlement while ignoring the depth of its bond market is repeating Europe's mistake with fewer resources.

CHAPTER NINETEEN

The Yen, the Plaza Accord, and the Thirty-Year Warning

In 1989 Japanese assets were worth more than American ones and books were written about Japan buying the world. Then Japan agreed to let its currency rise, and spent three decades recovering. Every rising power studies this episode. China studied it hardest.

By the mid-1980s Japan was the world's largest creditor, ran enormous trade surpluses, and American manufacturing was in visible distress. Political pressure in Washington for protection was intense.

On 22 September 1985, at the Plaza Hotel in New York, the finance ministers of the US, Japan, West Germany, France and the UK agreed to intervene jointly to bring the dollar down — principally against the yen.

What happened next

Sept 1985
Plaza Accord. Dollar at ¥242.

End 1987
Dollar at ¥121. The yen has **doubled** in value in two years.

1986–89
A strong yen crushes exporters. The Bank of Japan cuts rates to 2.5% and holds them there. Cheap money floods into land and equities.

Dec 1989
The Nikkei peaks at 38,915. Tokyo land is valued so highly that the Imperial Palace grounds are said to be worth more than all of California.

1990–92
The BoJ tightens. The bubble bursts. The Nikkei falls ~60% in under three years; land prices fall for 15 consecutive years.

1990–2020
The "lost decades": near-zero growth, persistent deflation, government debt to over 250% of GDP, near-zero policy rates for a quarter of a century.

Feb 2024
The Nikkei finally exceeds its 1989 high — **34 years later**.

IN SIMPLE WORDS — HOW A CURRENCY APPRECIATION BECOMES A LOST GENERATION

Japan's exports became expensive overnight. To help exporters, the central bank made borrowing almost free. But businesses did not want to build more factories — their products were now uncompetitive. So the cheap money went into the only things that were rising: land and shares. Prices rose because money was cheap; money kept flowing in because prices were rising.

When the central bank finally raised rates, the logic reversed. Asset prices collapsed, but the *debts taken to buy those assets did not*. Companies and banks spent the next twenty years paying down loans instead of investing. Economists call this a "balance sheet recession", and once it starts, cutting interest rates does not help — nobody wants to borrow at any price.

Why the yen never became a reserve currency

- **Japan ran surpluses, not deficits.** Same arithmetic problem as the eurozone: a surplus country cannot supply the world with its currency.

- **Deliberate policy.** Japan's Ministry of Finance actively discouraged yen internationalisation for decades, fearing loss of control over the exchange rate and domestic credit.
- **Demography and growth stopped.** Japan's population began falling in 2010 and its share of world GDP fell from about 17.8% in 1994 to roughly 3.5% in 2026.
- **Zero interest rates made the yen a funding currency, not a store of value.** The "carry trade" — borrow yen cheaply, invest elsewhere — means the yen is something people *owe*, not something they *hold*.

THE UNCOMFORTABLE PART — WHAT BEIJING LEARNED

The Chinese leadership's reading of the Plaza Accord, expressed repeatedly in official commentary and in the 2010 documentary *Currency Wars* literature that circulated widely among Chinese officials, is roughly: *the United States used financial pressure to defeat an economic rival without firing a shot, and Japan complied because it was a security dependent.*

Whether that reading is fair is debatable — most economists attribute Japan's lost decades to its own domestic policy errors after 1985, not to the Accord itself. But the reading is what matters, because it drives policy. It is a substantial part of why China maintains capital controls, manages its exchange rate, refuses to sign anything resembling a Plaza-style agreement, and is building parallel financial infrastructure.

For India the lesson is different and more practical: **currency appreciation is not a reward for success, it is a tax on your exporters.** Any Indian strategy that aims at "a strong rupee" as a goal in itself has misunderstood what happened to Japan.

CHAPTER TWENTY

The Yuan and Its Ceiling

China is the world's largest exporter, largest manufacturer and largest trading partner for over 120 countries. Its currency is 2.0 per cent of global reserves. That gap is not an accident, and it is not temporary.

Set out the achievements honestly first, because they are real and they are accelerating.

What China has actually built

- **CIPS**, its cross-border yuan payment system, reached a record daily average of RMB 920.5 billion (about $133.5bn) in March 2026, up 20 per cent year on year, with 1,791 participating institutions across 194 direct and 1,597 indirect members.
- **The digital yuan (e-CNY)** is the most advanced major-economy CBDC, with cumulative transaction volumes in the trillions of yuan.
- **mBridge**, the multi-CBDC platform with the UAE, Saudi Arabia, Thailand and Hong Kong, graduated from minimum viable product in early 2026 with over $55 billion in cumulative transactions — a system that can settle cross-border payments without touching a dollar or a correspondent bank.
- **Bilateral swap lines** with over 40 central banks, worth roughly RMB 4 trillion.
- **Commodity pricing:** yuan-denominated crude oil futures in Shanghai; iron ore and some LNG contracts in yuan; substantial yuan settlement with Russia, Brazil, Saudi Arabia and Argentina.
- **Russia–China trade** now settles overwhelmingly in national currencies — Russian officials have cited figures above 90 per cent and, in some statements, above 99 per cent.

This is a serious, well-funded, twenty-year programme and it is working on its own terms. It has also produced a reserve share of 1.99 per cent, up from 1.95 per cent the previous quarter.

The five walls

Wall 1 — Capital controls

A Chinese citizen may convert only $50,000 a year. Corporate outflows require approval. Foreign investors face quota systems. This is not a temporary transitional measure; it is a deliberate choice, reaffirmed after the 2015–16 episode when roughly $1 trillion left the country in eighteen months following a modest devaluation and Beijing had to spend about a quarter of its reserves to stabilise the currency.

A reserve currency must be freely exchangeable. If a foreign central bank cannot be certain it can convert its yuan into anything else on any given Tuesday, it will not hold yuan. There is no way around this, and China knows it.

Wall 2 — No independent courts

Under China's constitution the judiciary is not independent of the Party. For a domestic economy this is manageable. For a reserve currency it is disqualifying, because the entire proposition is "your money is safe here regardless of who you are or what your government does". The Jack Ma episode of 2020–21 — the abrupt cancellation of the world's largest planned IPO after a critical speech — was worth more to the dollar than a decade of American diplomacy.

Wall 3 — The surplus problem, again

China runs a goods trade surplus approaching $1 trillion. To supply the world with yuan, China would have to buy more from the world than it sells — abandoning the export-led model that lifted 800 million people out of poverty. Beijing has shown no willingness to do this and every indication that it will not.

Wall 4 — It does not want the job

Covered in Chapter 15. Reserve status means a permanently strong currency and a shrinking manufacturing sector. China has watched this happen to America and Britain. Its actual objective is narrower: *reduce vulnerability to dollar sanctions and secure supply chains*. That objective does not require the yuan to replace the dollar. It requires only that enough non-dollar rails exist.

Wall 5 — Demographics and debt

China's population is falling; its working-age population peaked around 2015. Total debt (government, corporate and household) is roughly 300 per cent of GDP, with a property sector that has been in slow-motion restructuring since 2021 and local government financing vehicles carrying liabilities that are still being recognised. A currency's long-run credibility rests on the issuer's long-run growth, and China's has structurally slowed.

KEY NUMBERS — THE YUAN'S GAP

Measure	China's share	Dollar's share
World merchandise exports	~14%	—
World manufacturing output	~30%	—
Global FX reserves	**2.0%**	57.1%
SWIFT payments	**3.1%**	50.1%
Trade finance	**8.0%**	81.2%
International debt securities	~1.5%	~64%

The single most revealing line is trade finance: 8.0% against a manufacturing share of 30%. Even the goods China itself makes are largely financed in dollars.

THE UNCOMFORTABLE PART — WHAT CHINA IS ACTUALLY BUILDING

It is a mistake to score China against the wrong objective. Beijing is not trying to make the yuan the world's reserve currency by 2035. It is building something more limited and far more achievable: **a parallel settlement system that works when the dollar system is closed to you.**

CIPS does not need to beat SWIFT. It needs to exist, function, and be available to Russia, Iran, and any future country that finds itself sanctioned. mBridge does not need to handle global trade. It needs to handle Gulf oil going to Asia. The e-CNY does not need to replace the dollar; it needs to give Belt and Road partners an alternative rail.

Judged against *that* objective, China is succeeding, and the correct question for the 2030s is not "will the yuan replace the dollar?" — it will not — but "will there be two systems, and what does it cost a country like India to have to operate in both?" That question is taken up in Chapters 40 and 43.

CHAPTER TWENTY-ONE

The Impossible Trinity

One diagram explains why China cannot open its capital account, why India manages its rupee, why Britain crashed out of the ERM in 1992, and why the eurozone crisis happened. If you learn one piece of economics from this report, learn this.

A country would like three things at once:

1. **A stable exchange rate**, so importers, exporters and borrowers can plan.
2. **Free movement of capital** across its borders, so it can attract foreign investment.
3. **Independent monetary policy** — the ability to set its own interest rates for its own economy.

It can have any two. Never three. This is not a policy preference; it is arithmetic.

Figure 10 The Impossible Trinity: no country can have all three

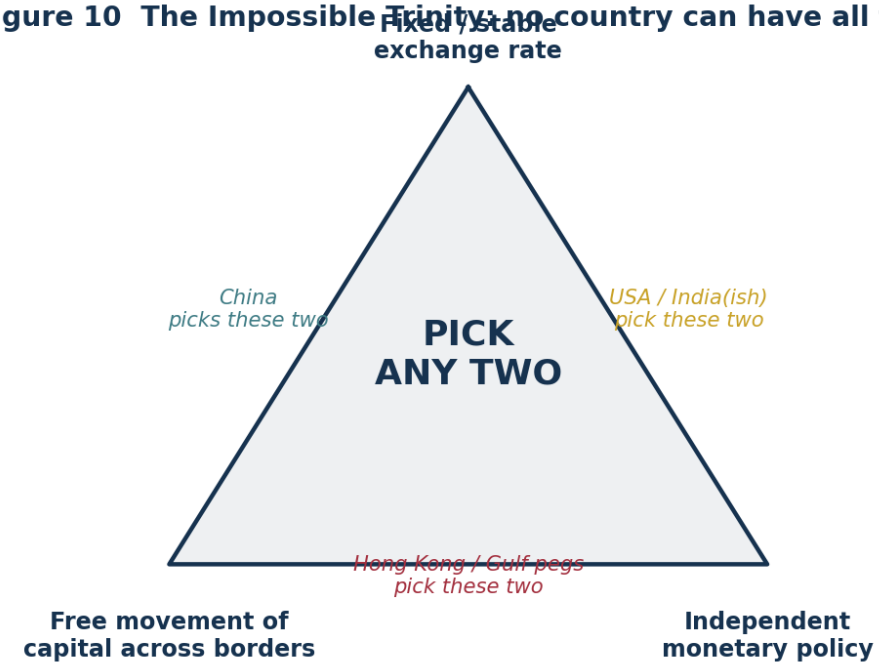

Figure 10. The Mundell–Fleming trilemma. Every country in the world sits on one side of this triangle, and most of the monetary drama of the last fifty years consists of countries trying to sit at the centre and discovering they cannot.

IN SIMPLE WORDS — WHY YOU CAN'T HAVE ALL THREE

Suppose India wants a fixed rate of ₹80 to the dollar, open borders for money, *and* low interest rates to boost growth.

India cuts its rate to 4 per cent. America's rate is 5 per cent. Investors do the obvious thing: sell rupees, buy dollars, earn the extra 1 per cent risk-free. Money floods out.

Selling rupees pushes the rupee down. To hold the rate at 80, the RBI must buy rupees with its dollar reserves. But the outflow is potentially unlimited, and the reserves are not. Eventually the RBI must either (a) let the rupee fall — giving up the fixed rate, (b) raise interest rates back to 5 per cent — giving up independent policy, or (c) stop people moving money — giving up free capital flows.

There is no fourth option. That is the entire theorem.

Table 21.1 — Who chose what

Country / regime	Gives up	Keeps	Consequence
United States	Stable exchange rate	Free capital, independent policy	The dollar swings wildly — America does not much care, since it borrows in its own currency
China	Free capital movement	Managed rate, independent policy	Controls its economy and its currency — and cannot have a reserve currency
Hong Kong	Independent monetary policy	Fixed rate to USD, free capital	Imports US interest rates entirely, even when unsuitable
Gulf states (Saudi, UAE)	Independent monetary policy	Dollar peg, free capital	Fed policy is Gulf policy. Rates rise in Riyadh when Washington decides
Eurozone members	Independent policy *and* own exchange rate	Free capital, single currency	Greece 2010–16: no devaluation possible, only wage cuts
India	Partly: capital movement is restricted	Managed float, meaningful policy independence	A deliberate middle position — see below

India's chosen corner

India occupies a deliberately blurred position, and it is worth being precise about it. India has a **managed float**: the rupee moves with the market, but the RBI intervenes heavily to smooth volatility. It has **partial capital account convertibility**: the current account (trade, remittances, travel) is fully convertible; foreign direct investment is largely open; but portfolio flows, external commercial borrowing and outward investment by residents are all subject to limits, and Indian residents may remit only $250,000 a year under the Liberalised Remittance Scheme.

This gives India roughly two-and-a-half of the three corners, purchased by holding $703 billion of reserves as a buffer. It is a defensible position and it has worked: India has not had a currency crisis since 1991, and it rode out the 2013 taper tantrum, the 2020 pandemic and the 2022 rate shock without one.

> THE UNCOMFORTABLE PART — THE TRILEMMA IS INDIA'S BINDING CONSTRAINT
>
> Here is the sentence that most of Part VII depends on. **You cannot internationalise a currency that is not freely convertible.**
>
> No foreign central bank will hold rupees in size if it cannot be certain of converting them into dollars or euros on demand, at scale, on any day. No foreign company will invoice in rupees if it cannot hedge and repatriate freely. Every Special Rupee Vostro Account arrangement runs into this wall: partners accept rupees, accumulate a surplus, and then ask what they are supposed to do with it.
>
> So India faces a genuine choice, not a technical one:
>
> - **Open the capital account fully** — and accept a volatile rupee, vulnerability to sudden stops, and reduced monetary independence.
> - **Keep the controls** — and accept that the rupee will remain a regional settlement currency at best, never a reserve currency.
>
> There is no path that avoids this trade-off, and any strategy document that claims otherwise is not being honest. Chapter 40 sets out what a realistic sequencing looks like.

CHAPTER TWENTY-TWO

Gold, Crypto, SDRs and the Other Candidates

Six proposed alternatives to the dollar, assessed on the six properties from Chapter 6 and the seven pillars from Chapter 13. One of them is quietly succeeding. It is the oldest one.

1. Gold

Gold is the only candidate showing genuine, measurable, sustained growth in its monetary role — and almost nobody frames it as a dollar competitor, which is precisely why it works.

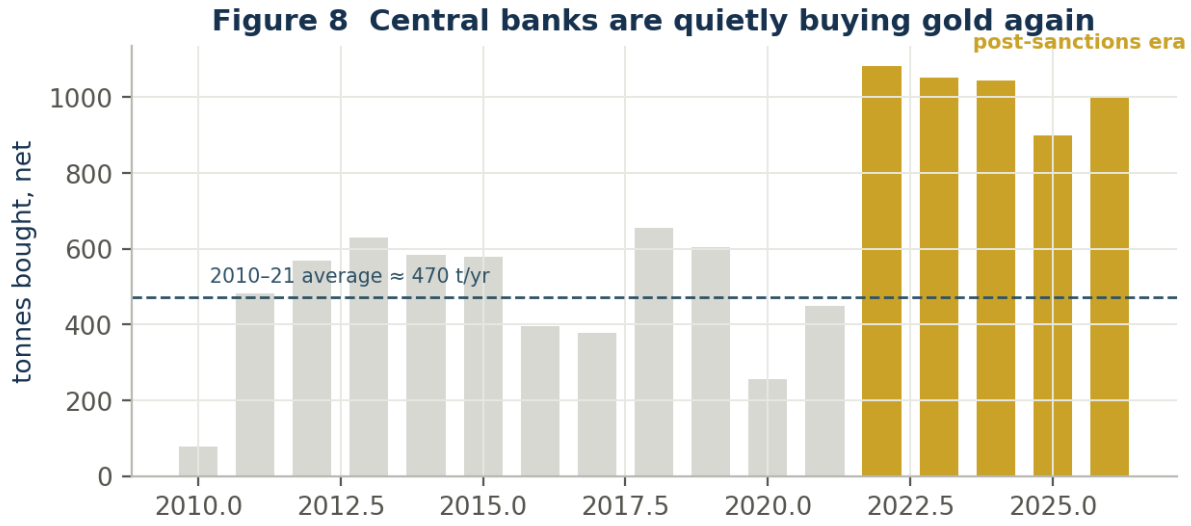

Figure 8. The structural break in 2022 is unmistakable. Central banks averaged about 470 tonnes a year in 2010–21 and have exceeded 1,000 tonnes every year since the freezing of Russian reserves. Q2 2026 alone saw net purchases of 289 tonnes, up 62% year on year. Source: World Gold Council.

What gold has: it is nobody's liability. It cannot be frozen if held domestically, cannot be inflated by a foreign central bank, has no counterparty, and has functioned as a monetary asset for four thousand years. The RBI has quietly repatriated over 100 tonnes of India's gold from the Bank of England since 2022, bringing the domestically held share above half for the first time in decades — a small act with a large meaning.

What gold lacks: you cannot pay a supplier in Rotterdam with a bar in a vault. It is not a medium of exchange, earns no yield, costs money to store, and the total above-ground stock is worth a fraction of global financial assets. It cannot be the transactional currency of a $110 trillion world economy.

Verdict: gold is not replacing the dollar as a *medium of exchange*. It is already replacing it, at the margin, as a *store of value* for central banks. That is a partial de-dollarisation that is actually happening, and it deserves far more attention than the BRICS currency debate.

2. The BRICS currency

Discussed since 2022, and as of 2026 there is no announced release date, no agreed institutional design, no central bank, and no unified fiscal backing. What has genuinely advanced is a *payments* agenda: BRICS Pay linking national systems (CIPS, UPI, Pix, SPFS, Mir), local currency settlement in specific corridors, and the New Development Bank's target of 30 per cent local currency lending.

The obstacles are structural, not administrative. India and China have an unresolved border dispute and are strategic rivals. Brazil, India and South Africa all run deficits with China, so a common currency would mean persistent transfers to Beijing. Russia is under sanctions, which makes it a liability rather than an

asset to any shared institution. A currency requires a common central bank, common fiscal rules and mutual trust — the eurozone had all three in far greater measure and still nearly broke apart in 2012.

> MYTH CHECK
>
> **Claim:** "BRICS is launching a gold-backed currency to replace the dollar."
>
> **Reality:** No such currency has been announced, designed or scheduled. What exists is bilateral local-currency settlement and payment-system interoperability. Indian officials, including the External Affairs Minister, have stated publicly on several occasions that India has no interest in a common BRICS currency and is not pursuing de-dollarisation as a policy. India's actual position is to internationalise the *rupee* — which is a competing objective, not a complementary one.
>
> The gold-backing claim is even weaker: a gold-backed currency reintroduces every constraint of Chapter 7, including the requirement that deficit countries deflate. Russia and China have not committed one gram of reserves to such a scheme.

3. Special Drawing Rights (SDRs)

The IMF's reserve asset, created in 1969 and effectively Keynes's bancor in miniature. Its value is a basket: about 43% dollar, 29% euro, 12% renminbi, 8% yen, 7% sterling.

Its problem is size and usability. Total SDR allocations are roughly $940 billion against global reserves of about $12 trillion — under 3 per cent. SDRs cannot be used by private parties, cannot buy anything directly, and must be exchanged for real currency through a voluntary arrangement among members. Expanding them requires an 85 per cent majority at the IMF, and the United States holds about 16.5 per cent of the votes — a permanent, deliberate veto.

4. Bitcoin and cryptocurrencies

What Bitcoin solves: it is genuinely censorship-resistant, has a hard supply cap, and no state can freeze a properly self-custodied holding. For an individual escaping capital controls or hyperinflation, this is not trivial.

Why it cannot be a reserve currency: volatility of 50–80 per cent annually makes it unusable as a unit of account — no central bank can hold an asset that may fall 40 per cent in a quarter. Throughput of roughly 7 transactions per second against Visa's tens of thousands. A fixed supply is a bug, not a feature, for a world economy: it guarantees deflation, which is exactly the gold standard's failure mode. And in practice, the dominant crypto settlement asset is not Bitcoin at all — it is dollar stablecoins.

5. Stablecoins — the dollar's Trojan horse

This deserves emphasis because it is usually filed under "de-dollarisation" when it is the opposite. Over 95 per cent of stablecoin value is pegged to the US dollar. Their reserves are held substantially in US Treasury bills, making the largest issuers among the world's larger holders of short-dated US government debt.

The practical effect is that a citizen in Argentina, Nigeria, Turkey or Lebanon can now hold dollars on a phone, without a US bank account, without permission, in a country whose government would prefer they did not. **Crypto has not de-dollarised the world; it has dollarised the parts of it that were previously out of reach.**

6. Central bank digital currencies and mBridge

CBDCs are the most credible near-term change, but not as national currencies competing head to head. The threat to the dollar's position comes from *interlinked* CBDC platforms that let two countries settle directly without correspondent banks and without dollar clearing — which means without American visibility or veto.

mBridge is the live example: China, Hong Kong, Thailand, the UAE and Saudi Arabia, over $55 billion of cumulative transactions by February 2026. India's own e₹ pilot is running in retail and wholesale form, and UPI has been linked to fast-payment systems in Singapore, the UAE, France, Sri Lanka, Mauritius, Nepal, Bhutan and others.

Table 22.1 — Scoring the alternatives

Candidate	Store of value	Medium of exchange	Unit of account	Scale	Realistic role by 2040
Gold	Strong	No	No	Medium	Growing reserve asset; already happening
Euro	Good	Good	Good	Medium	Permanent, stable number two
Renminbi	Weak	Improving	Regional	Large	Dominant in a China-facing bloc
BRICS unit	n/a	n/a	n/a	n/a	Payment interoperability only; no currency
SDR	Good	No	Partial	Tiny	Marginal unless the US allows expansion
Bitcoin	Volatile	Poor	No	Small	Individual hedge, not a reserve asset
USD stablecoins	Strong	Strong	Strong	Growing	**Extends dollar reach**
Linked CBDCs	n/a	Strong	n/a	Growing	The most credible genuine erosion channel

PART V

Currencies, Exchange Rates and Prices

Why every country has its own money, who actually decides that a dollar costs 95 rupees, why the same haircut costs twenty times more in Boston than in Patna, and how the price of anything gets set.

CHAPTER TWENTY-THREE

Why Every Country Has Its Own Money

There are about 180 currencies for 195 countries. This looks inefficient. It is not — and the countries that gave up their own currency have generally paid a heavy price for it.

Four reasons, in descending order of importance.

1. A currency is a shock absorber

This is the real answer, and everything else is secondary.

Suppose a country's main export collapses in price. Its people are now genuinely poorer. That adjustment has to happen somehow. There are exactly two mechanisms.

With your own currency: the currency falls. Imports become expensive, exports become competitive, and the adjustment is spread across everyone simultaneously and automatically. It hurts, but it happens in weeks and nobody has to be fired for it.

Without your own currency: the adjustment must come out of wages and jobs directly. Employers must cut pay or sack people. Because wages are famously "sticky downward" — people resist pay cuts fiercely — the adjustment comes mostly through unemployment, and it takes years instead of weeks.

> IN SIMPLE WORDS
>
> A currency is like the suspension on a car. The road is bumpy either way. With suspension, the bumps are absorbed and the passengers are shaken. Without suspension, the bumps go straight into the chassis and something breaks.
>
> Greece 2010–16 is the demonstration. It could not devalue because it used the euro, so its economy shrank by about a quarter and youth unemployment passed 50 per cent. Iceland, hit by a banking collapse that was proportionally far worse in 2008, devalued the króna by about 50 per cent and had recovered within four years. Same crisis type, opposite outcome, and the difference was having your own money.

2. Monetary sovereignty

Your own currency lets you set interest rates for *your* economy, act as lender of last resort to your own banks, and — crucially — borrow in money you can create. A government that borrows in its own currency cannot be forced into default by a foreign creditor. Japan has debt above 250 per cent of GDP and has never faced a crisis, because it owes yen. Sri Lanka defaulted in 2022 on about $50 billion, because it owed dollars.

3. Seigniorage

Printing money is profitable. The RBI's surplus transfer to the Government of India has run into the hundreds of thousands of crores in recent years. Give up your currency and you hand that revenue to someone else.

4. Identity and politics

Real, if secondary. A currency carries national symbols and is a daily statement of sovereignty. Note that the rupee sign ₹ was adopted only in 2010, and the debate about it was substantially about identity rather than economics.

When countries give it up

Table 23.1 — Countries without their own currency, and why

Arrangement	Examples	Why they did it	What it cost
Full dollarisation	Ecuador (2000), El Salvador (2001), Panama, Zimbabwe (2009–19)	Own currency had already been destroyed by hyperinflation	No monetary policy, no lender of last resort, all seigniorage to the US
Currency board	Hong Kong, Bulgaria, formerly Argentina (1991–2001)	Import US credibility to kill inflation	Argentina's board collapsed in 2001 with a 60% devaluation, a default and a 40% poverty rate
Monetary union	Eurozone (20), CFA franc zone (14 African states), Eastern Caribbean	Reduce trade costs, import stability	Greece 2010–16; the CFA franc is still pegged to the euro with French involvement, a live political controversy
Hard peg	Saudi Arabia, UAE, Nepal (to INR), Bhutan (to INR)	Simplicity for a commodity or small economy	Interest rates set abroad; Gulf states must follow the Fed even in a domestic downturn

CASE STUDY — ECUADOR, AND WHY NOBODY COPIES IT

In 2000, after the sucre lost 75 per cent of its value in a year and the banking system collapsed, Ecuador adopted the US dollar outright. Inflation fell from 96 per cent to single digits within three years. On that measure it worked.

The costs arrived later. Ecuador cannot devalue, so when oil prices fall — and it is an oil exporter — the adjustment comes entirely through wages and public spending. It has no lender of last resort, so its banks must self-insure. It earns no seigniorage. During COVID it could not conduct any monetary stimulus at all and had to default on its external debt.

Dollarisation is a decision taken by countries that have already lost the ability to run their own monetary policy credibly. It is a confession, not a strategy.

CHAPTER TWENTY-FOUR

How an Exchange Rate Is Actually Set

Nobody decides that a dollar is worth ninety-five rupees. It emerges from about $9.6 trillion of daily trading, of which only a small fraction has anything to do with buying goods.

An exchange rate is a price, and like any price it is set where supply meets demand. The question is: who is supplying and demanding rupees, and why?

Table 24.1 — What creates demand for and supply of rupees

Demand for rupees (rupee strengthens)	Supply of rupees (rupee weakens)
Foreigners buy Indian goods — software, pharmaceuticals, textiles, engineering	India buys foreign goods — crude oil, gold, electronics, coal, edible oil
Foreign investors buy Indian shares, bonds or companies	Indian investors and firms invest abroad
Remittances from the ~18m Indians working overseas (~$135bn a year, the world's largest inflow)	Indians travelling, studying and paying fees abroad
Tourists visiting India	Repatriation of profits and dividends by foreign firms
Speculators betting the rupee will rise	Speculators betting the rupee will fall
RBI buying rupees with its reserves	RBI selling rupees to build reserves

KEY NUMBERS — THE SCALE MISMATCH

Global daily foreign exchange turnover is roughly **$9.6 trillion**. Annual world merchandise trade is roughly **$24 trillion** — about $95 billion a working day.

In other words, **currency trading is about 100 times larger than the trade it nominally serves.** Exchange rates are therefore set overwhelmingly by financial flows, expectations and speculation, not by the trade balance. This is why a rupee can fall on a day when India's exports were fine, and why "our exports are strong so the rupee should be strong" is not how it works.

The five exchange rate regimes

Free float

The market sets it; the central bank does not intervene. USD, EUR, JPY, GBP, AUD. Volatile but self-correcting.

Managed float ("dirty float")

The market sets the trend; the central bank intervenes to smooth volatility. **India, Brazil, Indonesia, South Korea, Singapore.** The RBI buys dollars when the rupee is strengthening too fast and sells when it is falling too fast — which is exactly what the $703bn of reserves is for.

Crawling peg

Fixed, but adjusted at a pre-announced rate. Used by countries with structurally higher inflation than their trading partners.

Hard peg

Fixed to another currency by policy. Saudi riyal at 3.75/USD since 1986; Hong Kong dollar in a band around 7.8; Nepalese rupee at 1.6 to the Indian rupee.

Currency board / dollarisation

The extreme: every unit issued must be backed by foreign currency, or the foreign currency is used directly.

What actually moves a currency

In rough order of importance over different horizons:

Days to weeks — interest rate differentials and risk sentiment. If US rates are 5% and Indian rates are 6%, money flows towards the higher return, adjusted for expected currency movement. When global markets panic, money flows to the dollar regardless of rates.

Months — the current account and commodity prices. For India, crude oil is the dominant single variable. A $10 rise in the oil price costs India roughly $13–15 billion a year in extra imports and puts direct downward pressure on the rupee.

Years — inflation differentials. If India's inflation averages 5% and America's 2%, the rupee must lose roughly 3% a year against the dollar just to keep Indian goods equally competitive. This is the single biggest reason the rupee has depreciated for eight decades, and it is not a sign of failure — it is arithmetic.

Decades — productivity growth. Countries whose productivity grows faster than their trading partners' tend to see their real exchange rate appreciate.

IN SIMPLE WORDS — WHY THE RUPEE ALWAYS FALLS

Imagine two shops selling the same thing. Indian prices rise 5 per cent a year; American prices rise 2 per cent. After ten years Indian goods have become about 34 per cent more expensive in their own currency terms.

If the exchange rate did not move, nobody would buy Indian goods. So the exchange rate moves: the rupee falls by roughly the inflation gap, restoring the balance.

The rupee falling against the dollar is not primarily a verdict on India's economy. It is mostly a verdict on the inflation difference between the two countries. A country can grow fast and still see its currency depreciate. India has been doing exactly that for thirty years.

This also tells you what would actually strengthen the rupee: not slogans, but persistently lower inflation and faster productivity growth than the United States. There is no shortcut.

THE UNCOMFORTABLE PART — A STRONG CURRENCY IS NOT A STRONG ECONOMY

Politicians in every country treat the exchange rate as a scoreboard. It is not.

Switzerland has an extremely strong franc and a small, specialised economy. Japan's yen collapsed from 110 to 155 per dollar between 2021 and 2024 while the Nikkei hit an all-time high. China deliberately kept the yuan weak for two decades and became the workshop of the world.

A weak currency helps exporters and hurts importers and consumers. A strong currency does the reverse. Which is better depends entirely on what your economy needs. For a country trying to build a manufacturing base and create jobs for a million new workers a month, a competitive currency is generally an asset, not a humiliation.

What genuinely matters is not the *level* but the *volatility*. Businesses can plan around ₹95 or ₹75. They cannot plan around a rate that moves 15 per cent in a quarter. This is exactly why the RBI targets stability rather than a number, and why it is right to.

CHAPTER TWENTY-FIVE

Purchasing Power Parity Explained

India's economy is either the fourth largest in the world or the third, depending on which ruler you use. Both figures are correct. Knowing which to use, and when, is one of the most useful things in this report.

Start with the simplest possible version of the idea.

Suppose a shirt costs $20 in New York and ₹800 in Delhi. If ₹800 buys the same shirt as $20, then in shirt terms the "true" exchange rate is ₹40 to the dollar. But the market rate is ₹95. The rupee is therefore *undervalued* relative to what it can actually buy at home — by a factor of more than two.

That factor is what Purchasing Power Parity measures.

IN SIMPLE WORDS

Two different questions, two different answers.

Question 1: "How much oil can India buy?" Use the **market exchange rate**. Oil is priced in dollars on a world market. India must earn actual dollars. India's nominal GDP of about $4.3 trillion is the relevant number.

Question 2: "How well do Indians live? How much stuff does India actually produce and consume?" Use **PPP**. Most of what an Indian buys — rent, food, transport, haircuts, healthcare, education — is produced locally and is far cheaper than the exchange rate implies. India's PPP GDP of about $18.9 trillion is the relevant number.

Neither number is fake. They answer different questions. The error is using the flattering one for everything.

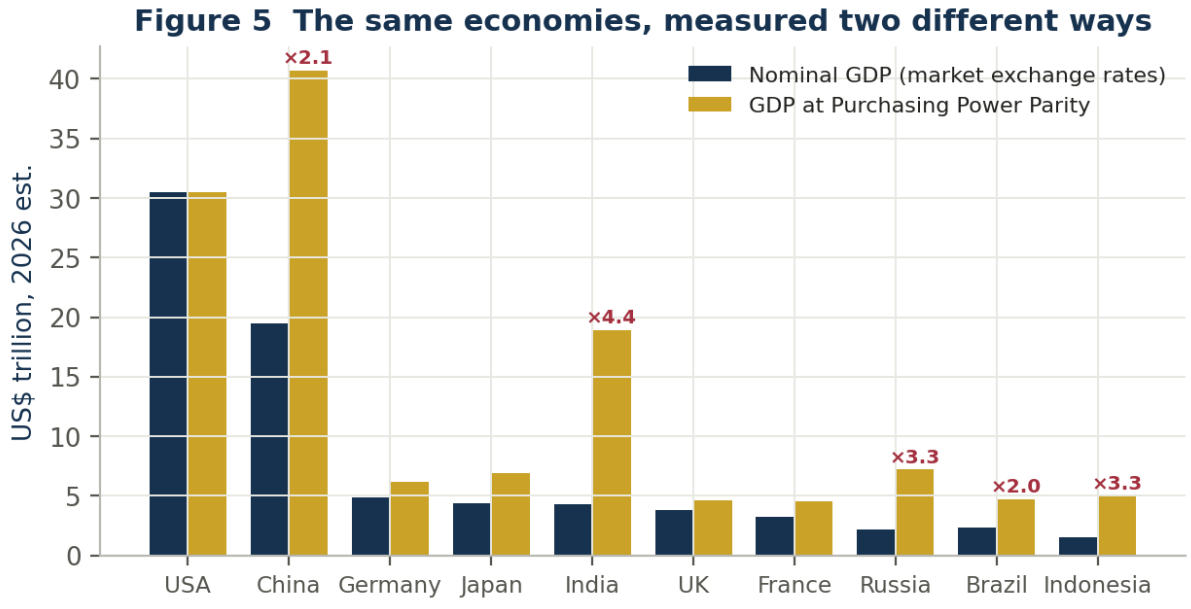

Figure 5. The same ten economies, measured two ways. India's ratio of about 4.4× is among the largest in the world — meaning Indian prices are roughly a quarter of American prices for a comparable basket. Note that the US bars are identical by construction: PPP is measured *relative to* the United States. Source: IMF World Economic Outlook, 2026 estimates.

Table 25.1 — When to use which measure

Use nominal (market rate) for…	Use PPP for…
Importing oil, gold, semiconductors, aircraft	Comparing living standards

Use nominal (market rate) for…	Use PPP for…
Repaying foreign-currency debt	Comparing the real size of economies
Military hardware purchases from abroad	Comparing domestic military manpower and production
IMF quotas, sovereign credit ratings	Measuring poverty and inequality across countries
Foreign investment flows	Comparing productivity per worker
Anything crossing a border	Anything staying inside a border

The Big Mac Index

The Economist invented this in 1986 as a joke and it has become a genuinely useful teaching tool. A Big Mac is made of roughly the same ingredients everywhere, with roughly the same process, so comparing its price across countries gives a rough PPP reading. (In India, where the Maharaja Mac replaces beef, the comparison is adjusted.)

The logic: if a burger costs $5.80 in the US and ₹250 in India, the implied rate is ₹43 to the dollar. The actual rate is ₹95. The rupee is therefore "undervalued" by roughly 55 per cent on this measure.

THE UNCOMFORTABLE PART — WHAT PPP DOES *NOT* MEAN

PPP figures are used dishonestly more often than almost any other statistic, in every country. Four things they do not mean:

- **It does not mean India can buy $18.9 trillion of anything.** India can spend $4.3 trillion internationally. PPP dollars do not exist; you cannot pay Saudi Aramco in them.
- **It does not mean Indians are three times richer than the nominal figure suggests** in any sense that involves imported goods. An iPhone costs the same in dollars everywhere. Petrol tracks the world crude price. A foreign university degree is priced in dollars.
- **It does not make per-capita comparisons flattering.** India's PPP GDP per capita is roughly $13,000 against about $89,000 for the United States — a gap of nearly seven times, even *after* the PPP adjustment.
- **PPP conversion factors are estimates, not measurements.** They come from the World Bank's International Comparison Program, which surveys prices every six years. Between rounds, figures are extrapolated. Revisions have moved country rankings before.

KEY NUMBERS — INDIA MEASURED TWO WAYS, 2026

$4.3tn	$18.9tn	~$2,900	~$13,000
Nominal GDP (4th–6th in the world, depending on the source)	PPP GDP (3rd in the world)	Nominal GDP per capita (~140th in the world)	PPP GDP per capita (~125th in the world)

The two per-capita figures are the honest ones and they tell the real story: India is a very large economy composed of a very large number of people who are not yet individually prosperous. Both halves of that sentence matter for everything in Part VII.

CHAPTER TWENTY-SIX

Why Poor Countries Are Cheap

A haircut costs ₹150 in Lucknow and $45 in Chicago. The barber's skill is comparable, the scissors are similar, the time taken is the same. There is a precise economic reason for the difference, and it explains most of what PPP measures.

The explanation is called the **Balassa–Samuelson effect**, after the two economists who described it independently in 1964. It sounds intimidating and is actually simple.

IN SIMPLE WORDS — THE WHOLE ARGUMENT IN FIVE STEPS

Step 1. Divide the economy into two kinds of things. *Tradables* can be shipped: steel, phones, shirts, software. *Non-tradables* cannot: haircuts, restaurant meals, rent, school fees, bus rides, domestic help.

Step 2. Tradables have roughly one world price. A tonne of steel costs about the same everywhere, because if it were cheaper in India, buyers would ship it from India until the prices converged.

Step 3. Rich countries are rich because their workers are much more productive *in tradables*. An American factory worker with modern machinery produces far more per hour than an Indian worker with older equipment. So American manufacturing wages are much higher.

Step 4. Here is the key move. An American barber is *not* more productive than an Indian barber — one head at a time in both countries. But the American barber must be paid something close to what he could earn in a factory, or he would go and work in one. So **the American barber earns a high wage he did not earn through productivity.**

Step 5. Therefore haircuts, rent, restaurant meals and every other non-tradable are expensive in rich countries and cheap in poor ones — even though the service is identical.

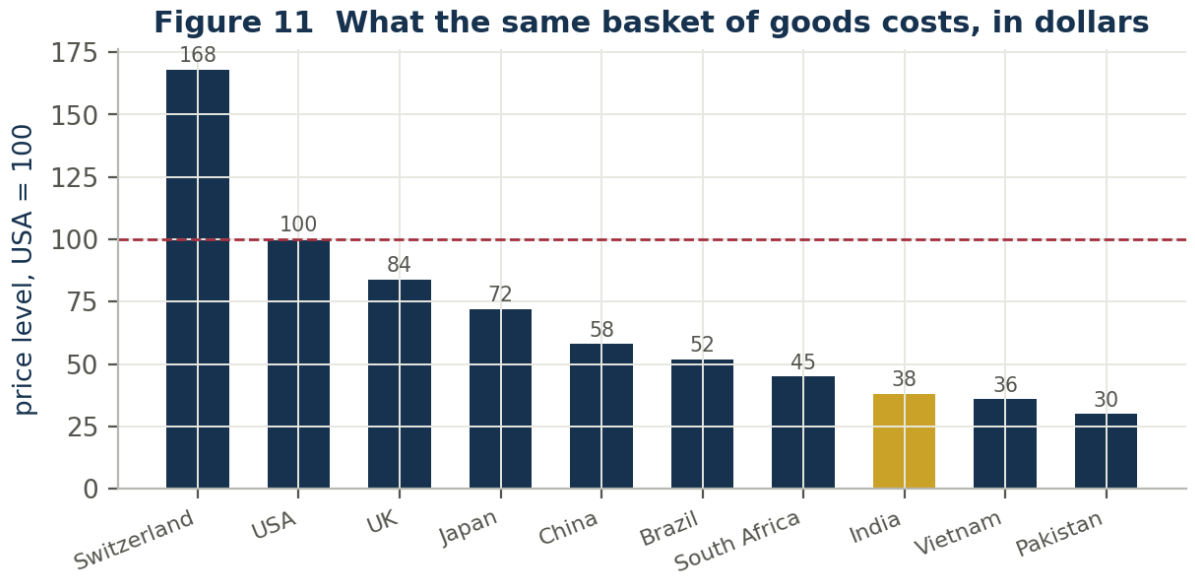

Figure 11. Comparative price levels for a common basket, with the United States set to 100. India sits around 38, meaning the same basket costs roughly 38% of the American price. The pattern is almost perfectly correlated with GDP per capita — which is exactly what Balassa–Samuelson predicts.

Why this matters, practically

It explains India's cost advantage in services. An Indian software engineer's output — code — is perfectly tradable and worth the same anywhere. But the engineer lives in an economy where rent, food and transport are cheap, so a globally competitive salary in Indian terms is a fraction of the American equivalent.

India's entire IT services industry, worth around $250 billion in exports, rests on this arbitrage. So does global capability centre growth, and increasingly pharmaceutical and engineering R&D.

It predicts what happens as India grows. As Indian manufacturing productivity rises, manufacturing wages rise, which drags service wages up, which raises the domestic price level, which causes the *real* exchange rate to appreciate. India's cost advantage will erode — and that erosion is a symptom of success, not failure. China lived through exactly this between 2005 and 2020, which is why low-end manufacturing has been leaving China for Vietnam, Bangladesh and India.

It warns against a policy error. Because the effect predicts real appreciation as a country develops, governments sometimes try to *force* the currency up to signal success. This kills the tradable sector before productivity has caught up — a mistake made by several Latin American economies and, in a different form, by Britain in 1925.

> **KEY INSIGHT FOR THE DOLLAR QUESTION**
>
> Balassa–Samuelson has a direct implication for Part VIII. As India and other emerging economies converge on rich-country productivity, their real exchange rates appreciate and their share of world GDP *measured at market rates* rises much faster than their PPP share.
>
> India's nominal GDP is about 3.6% of world output today but its PPP share is roughly 8.5%. Convergence would close that gap mechanically, without India growing any faster than it already is. This is the strongest structural argument for the rupee mattering more in 2050 — and it requires no policy at all, only continued growth.

CHAPTER TWENTY-SEVEN

How Prices Are Actually Set Inside a Country

Take a single litre of petrol, a kilo of onions and a smartphone, and trace every rupee of the price. This chapter is the answer to "why does everything cost what it costs?"

There are essentially four price-setting mechanisms operating in any economy, and most goods involve more than one.

Mechanism 1: Cost-plus (most manufactured goods and services)

The seller adds up costs and applies a margin. The components:

- **Raw materials** — often set on world markets in dollars, so the exchange rate enters directly.
- **Labour** — set by local wages, minimum wage laws, and how scarce the skill is.
- **Energy and transport** — diesel, electricity, freight. In India this is a large share, and it is why fuel prices affect everything.
- **Land and rent** — set by local scarcity, which is why the same shirt costs more in a Mumbai mall than a Nagpur market.
- **Capital costs** — interest on borrowing, which is set by the central bank.
- **Taxes** — GST, customs duty, cess, state levies.
- **Margin** — determined by competition. This is the only part the seller freely chooses, and competition is what constrains it.

Mechanism 2: Market-clearing (commodities, produce, shares)

Nobody sets the price of onions. It emerges from how many onions arrived at the mandi and how many buyers turned up. This is why food prices are volatile and why a bad monsoon or an unseasonal rain can move India's headline inflation by a full percentage point in a month.

Mechanism 3: Administered prices (the state decides)

A substantial part of the Indian price structure is set by government, not markets:

Table 27.1 — Administered and influenced prices in India

Price	Who sets it	Mechanism
Minimum Support Price for 23 crops	Union Government, on CACP advice	Guaranteed floor price for procurement; anchors wheat and rice markets
Retail petrol & diesel	Oil marketing companies, with government influence	Nominally deregulated since 2010/2014; in practice prices are frozen around elections and the state-owned companies absorb the difference
Electricity tariffs	State Electricity Regulatory Commissions	Cross-subsidy: industry pays above cost so farmers and households pay below
Essential medicines	NPPA under the DPCO	Ceiling prices on ~380 formulations
Rail passenger fares	Ministry of Railways	Held below cost; freight cross-subsidises passengers
Sugar (fair & remunerative price)	Union Government	Mills must pay a set price to cane farmers

Mechanism 4: Market power (the seller decides)

Where competition is weak — a patented drug, a monopoly port, a dominant platform — the price is set by what buyers will bear, not by cost. This is why competition law exists.

CASE STUDY — THE ANATOMY OF ONE LITRE OF PETROL IN DELHI

Approximate breakdown at a retail price near ₹95 per litre:

Component	Approx. ₹/litre	Share	Set by
Crude oil cost (landed)	34	36%	World market, in dollars × exchange rate
Refining, freight, OMC margin	7	7%	Refiners
Central excise duty	20	21%	Union Government
State VAT	16	17%	State Government
Dealer commission	4	4%	Negotiated
Remaining costs & margins	14	15%	Mixed

Roughly 38 per cent of the pump price is tax. This is why petrol costs different amounts in different Indian states with identical crude — and why fuel prices barely fell when crude collapsed in 2020: governments raised excise to capture the difference. Fuel taxation is one of the largest single revenue sources for both the Centre and the states, which is also why petrol and diesel remain outside GST.

IN SIMPLE WORDS — WHY THE SAME THING COSTS DIFFERENT AMOUNTS IN DIFFERENT COUNTRIES

Six reasons, and they apply to every product on earth:

1. Local wages. Everything embeds the cost of the people who made, moved and sold it.
2. Taxes. A car in Singapore costs several times the Indian price almost entirely because of duties.
3. Tariffs and import duties. India's duties on gold, cars and electronics are deliberately high to protect domestic industry and manage the trade deficit.
4. Transport and distance. Landlocked and remote countries pay more for everything.
5. Subsidies. Diesel, fertiliser, LPG and food in India are sold below cost, with the state paying the difference.
6. Competition. Where a market has three suppliers, prices are higher than where it has thirty.

THE UNCOMFORTABLE PART — WHY PRICE CONTROLS USUALLY FAIL

When a government caps a price below the cost of supply, sellers do not simply accept a loss. They reduce quality, sell less, exit the market, or divert supply to a black market where the true price prevails.

Diocletian tried it in 301 CE with the death penalty attached, and it failed. Venezuela tried it from 2003, and supermarket shelves emptied. India's own experience with sugar controls, drug price caps and electricity tariffs shows the same pattern in milder form: capped tariffs have left state electricity distribution companies with accumulated losses running into lakhs of crores, which ultimately taxpayers pay.

This is not an argument that all price intervention is wrong — essential medicines are a reasonable case for a ceiling, and the MSP system has genuine food-security logic. It is an argument that **a price is information, and suppressing the information does not remove the underlying scarcity.** It only moves who bears it, usually onto the state's balance sheet, usually invisibly.

CHAPTER TWENTY-EIGHT

Inflation: What It Is and Who It Robs

Inflation is not "prices going up". It is the value of money going down. The difference matters, because it tells you who is responsible and who pays.

If the price of tomatoes rises because of a bad harvest, that is a relative price change — tomatoes have become scarce. If the price of tomatoes, shirts, rent, school fees, cement and haircuts all rise together, tomatoes have not become scarce. **The rupee has become less valuable.** That is inflation.

The three causes

Demand-pull

Too much money chasing too few goods. Happens when incomes or credit grow faster than production. The classic post-COVID example: stimulus payments plus supply chains that could not respond.

Cost-push

The cost of producing everything rises — energy, wages, imported inputs. The 1973 oil shock, and in India, any large depreciation of the rupee or spike in crude.

Expectations

The self-fulfilling one, and the one central banks fear most. If everyone expects 8 per cent inflation, workers demand 8 per cent raises and firms set prices 8 per cent higher in advance. Inflation then happens because it was expected. This is why a central bank's *credibility* is a real economic asset.

How India measures it

Table 28.1 — India's price indices

Index	What it measures	Weight of food	Used for
CPI (Consumer Price Index)	Retail prices paid by households	~46%	**The RBI's official target** — 4% ±2%
WPI (Wholesale Price Index)	Prices at the wholesale/producer stage	~24%	Business cost pressure; no services included
Core CPI	CPI excluding food and fuel	0%	Underlying trend, stripped of volatility
GDP deflator	Prices across the whole economy	n/a	Converting nominal GDP to real GDP

The 46% food weight is the single most important number here. It means Indian headline inflation is driven by the monsoon to a degree unimaginable in a rich country, where food is 10–15% of the basket.

> **IN SIMPLE WORDS — WHY YOUR INFLATION IS NOT THE OFFICIAL INFLATION**
>
> The CPI is a weighted average of a basket meant to represent an average household. You are not the average household.
>
> If you rent in a metro, education and rent may be 40 per cent of your spending, and both have been rising faster than the index. If you own your home and grow some of your food, your personal inflation is far lower. If you have a child in private school and a parent needing medical care, your inflation may be double the headline.
>
> So when the government reports 4 per cent and you feel 9 per cent, both can be true. The index is not lying; it is describing a household that does not exist.

Who wins and who loses

Table 28.2 — The distribution of inflation

Winners	Losers
Borrowers — you repay a fixed loan with cheaper money. A ₹50 lakh home loan taken in 2015 is much easier to service in 2026 rupees	**Savers with fixed deposits** — 6.5% interest against 6% inflation is a real return of half a per cent, before tax
Governments — the largest borrowers in most economies; inflation erodes the real value of public debt and increases nominal tax revenue	**Pensioners on fixed incomes** — the purest victims, since their income does not adjust
Owners of real assets — land, property, gold, equities, which rise with the price level	**Wage earners without bargaining power** — informal sector workers, whose pay adjusts last if at all
Exporters, if inflation is accompanied by depreciation	**Importers** and anyone with foreign-currency obligations

THE UNCOMFORTABLE PART — INFLATION IS A TAX NOBODY VOTED FOR

A government that cannot raise taxes politically, and cannot cut spending politically, has a third option: create money. Prices rise, the real value of its debt falls, and the cost is spread across everyone holding the currency.

Keynes described this precisely in 1919: "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens... The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

This is why central bank independence matters, and why India's move to a formal inflation-targeting framework in 2016 — 4 per cent CPI, with a tolerance band of 2 to 6 per cent, set in law and enforced by a Monetary Policy Committee — is among the more significant institutional reforms of the last decade. It is also why any proposal to weaken that independence, in any country, should be looked at very carefully.

KEY NUMBERS — THE HISTORICAL RANGE

India's worst inflation years: 1974–75 (~28%, after the oil shock and a failed monsoon), 1980 (~18%), 1991 (~13.9%), 2010–13 (~10% average). Since inflation targeting began in 2016, CPI has averaged roughly 5%. Hyperinflation records: Hungary 1946 (prices doubling every 15 hours), Zimbabwe November 2008 (79.6 billion per cent monthly), Yugoslavia 1994, Venezuela 2018–19.

CHAPTER TWENTY-NINE

Central Banks and the Machinery of Interest Rates

Twelve people in a room in Mumbai, and twelve in a room in Washington, make decisions every six weeks that determine what a home loan costs on three continents. Here is how the lever actually works.

A central bank has one primary instrument: the price at which commercial banks can borrow reserves overnight. In India this is the **repo rate**; in the US, the **federal funds rate**. Everything else is transmission.

How the transmission works

1. The RBI's Monetary Policy Committee raises the repo rate from 6.00% to 6.50%.
2. Banks now pay more to borrow overnight, so they raise their own lending rates. Since 2019 most Indian floating-rate retail loans are linked directly to the repo rate, so this happens automatically.
3. Home loans, car loans and business loans become more expensive. Some borrowers postpone.
4. Deposit rates rise, so saving becomes more attractive relative to spending.
5. Total demand in the economy falls.
6. With less demand chasing the same goods, price rises slow.
7. Separately, higher Indian rates attract foreign capital, which strengthens the rupee, which makes imports cheaper, which reduces imported inflation.

Steps 1 to 6 take between six and eighteen months. This lag is why central banking is so difficult: you must act on a forecast, and you will be judged on an outcome you set in motion a year and a half earlier.

The RBI's toolkit

Table 29.1 — What the Reserve Bank of India actually controls

Tool	What it is	Effect
Repo rate	Rate at which RBI lends to banks against securities	The main policy lever
Reverse repo / SDF	Rate at which RBI absorbs surplus bank funds	Sets the floor of the corridor
CRR — Cash Reserve Ratio	Share of deposits banks must hold with RBI (4%)	Directly removes lendable funds
SLR — Statutory Liquidity Ratio	Share of deposits in government securities (18%)	Creates captive demand for government debt
Open market operations	Buying/selling government bonds	Adds or drains liquidity
FX intervention	Buying/selling dollars from the $703bn reserves	Smooths the rupee
Macroprudential rules	Risk weights, loan-to-value caps, provisioning norms	Targets specific credit segments — used in 2023 to cool unsecured personal lending

Why the Federal Reserve is India's second central bank

This is the practical consequence of everything in Parts II and III, and it deserves to be stated without euphemism.

When the Fed raises rates, dollar assets become more attractive. Foreign portfolio investors sell Indian bonds and equities and take the money home. The rupee falls. India's import bill — 85 per cent of its oil, most of its electronics, its gold — rises in rupee terms. Inflation rises. To defend the currency and contain inflation, the RBI must consider raising Indian rates *even if India's domestic economy needs lower ones.*

In 2013, when Fed Chairman Ben Bernanke merely mentioned that the Fed might slow its bond purchases, the rupee fell about 20 per cent in four months and the RBI raised rates into a slowing economy. India had done nothing wrong. The episode is remembered as the "taper tantrum", and India was one of the "Fragile Five".

IN SIMPLE WORDS

India's central bank sets Indian interest rates. But it does so inside a room whose temperature is controlled by someone else. The RBI's independence is real and valuable, and it is exercised within constraints set in Washington by people whose legal mandate mentions only American workers and American prices.

This is the concrete, everyday meaning of dollar dominance for an Indian household. It is not abstract geopolitics. It is the reason your home loan EMI can rise because of a decision taken by people who have never heard of you and are not permitted, by their own law, to consider you.

KEY INSIGHT — THE RESERVES AS INSURANCE PREMIUM

India holds about $703 billion in foreign exchange reserves. These earn perhaps 2–4 per cent in US Treasuries and similar instruments. The same capital deployed in Indian infrastructure might earn a social return several times that.

The gap is the **insurance premium India pays for not being inside the Federal Reserve's swap-line circle.** A rough estimate: if the opportunity cost is 4 percentage points on $700 billion, the annual cost is on the order of $28 billion — comparable to India's entire annual health budget.

This is not an argument for holding fewer reserves; 1991 is why India holds them, and they have demonstrably worked. It is an argument for understanding that *the current system has a price, it is paid in Indian rupees, and it is paid every single year.* That is the honest case for caring about this subject.

PART VI

The Debt Map of the World

Who owes whom, who lends to whom, what happens when a country cannot pay, and why the same story keeps repeating in different countries with different creditors.

CHAPTER THIRTY

Who Owes Whom

Global debt is roughly $325 trillion, about three times world GDP. But the total is almost meaningless. What matters is who owes, in what currency, to whom, and for how long.

Start with a clarification that removes most of the confusion in public debate. "National debt" mixes together four completely different things:

Table 30.1 — Four kinds of debt, and which ones are dangerous

Type	Owed by	Owed to	Danger level
Domestic government debt in own currency	Government	Its own citizens and banks	**Low.** Cannot be forced to default; worst case is inflation. Japan at 250% of GDP.
External government debt in own currency	Government	Foreigners	**Low-medium.** Only the US, and to a lesser degree Japan and the eurozone, can do this at scale.
External government debt in foreign currency	Government	Foreigners	**HIGH.** This is what kills countries. Sri Lanka, Argentina, Zambia, Ghana, Pakistan.
Private external debt	Companies and banks	Foreigners	**High.** Becomes public in a crisis, because governments rescue banks. Ireland 2008, Korea 1997.

IN SIMPLE WORDS — THE ONLY DEBT QUESTION THAT MATTERS

Ask one thing: **can the borrower create the currency it owes?**

If yes, it can always technically pay. Japan owes yen and prints yen. The United States owes dollars and prints dollars. India's domestic debt is in rupees and India prints rupees. Default is a political choice, not an arithmetic necessity, and the real risk is inflation, not bankruptcy.

If no, the borrower must *earn* the currency through exports, tourism, remittances or new borrowing. When those dry up, it defaults — regardless of how large or small the debt looks relative to GDP. Sri Lanka defaulted with external debt around 60 per cent of GDP. Japan has not defaulted at 250 per cent. The ratio was never the point.

Economists call the inability of most countries to borrow abroad in their own currency **"original sin"**. It is the single most important structural inequality in the world financial system, and it is why the dollar question matters far more to Colombo and Accra than to Tokyo.

The global picture

Table 30.2 — Government debt-to-GDP, selected countries, 2026

Country	Gross govt debt / GDP	Share held by foreigners	Currency of debt	Risk
Japan	~250%	~14%	Yen	Low — owes its own money to its own people
United States	~124%	~24%	Dollar	Low — issues the world's reserve currency
Italy	~135%	~30%	Euro — **cannot print it**	Medium-high — the eurozone's structural weak point
France	~115%	~50%	Euro — cannot print it	Medium

Notice that debt-to-GDP does not predict crisis. Japan is triple Sri Lanka's ratio and safe. The currency and the ownership are what matter.

Country	Gross govt debt / GDP	Share held by foreigners	Currency of debt	Risk
China	~90% (plus large local-government liabilities)	~3%	Yuan	Low externally, high domestically
India	~81%	**~5%**	**Mostly rupees**	**Low** — see Chapter 37
Brazil	~88%	~10%	Mostly real	Medium
Pakistan	~70%	~35%	Substantially foreign currency	**High**
Sri Lanka	~100%	~40%	Substantially foreign currency	**Defaulted 2022**
Argentina	~85%	high	Substantially dollars	**Defaulted 9 times since 1816**

Notice that debt-to-GDP does not predict crisis. Japan is triple Sri Lanka's ratio and safe. The currency and the ownership are what matter.

KEY INSIGHT FOR INDIA

India's public debt is around 81 per cent of GDP — higher than most emerging peers, and a genuine constraint on fiscal space. But roughly 95 per cent of it is *denominated in rupees and held domestically*, largely by Indian banks (compelled by the SLR), insurance companies and provident funds.

This means India is structurally insulated from the crisis that destroyed Sri Lanka in 2022. India cannot be forced into external default by its own budget deficit. The 1991 crisis was a balance-of-payments crisis — not enough dollars to pay for imports — and India's $703 billion of reserves now covers roughly ten to eleven months of imports against three weeks in 1991.

This is one of the genuinely strong cards in India's hand, and it is rarely mentioned. Chapter 38 returns to it.

CHAPTER THIRTY-ONE

Who Lends to the United States

America owes about $39.9 trillion. Roughly a quarter of it is owed to foreigners. The list of who holds it, and what they can actually do about it, is one of the most misunderstood subjects in geopolitics.

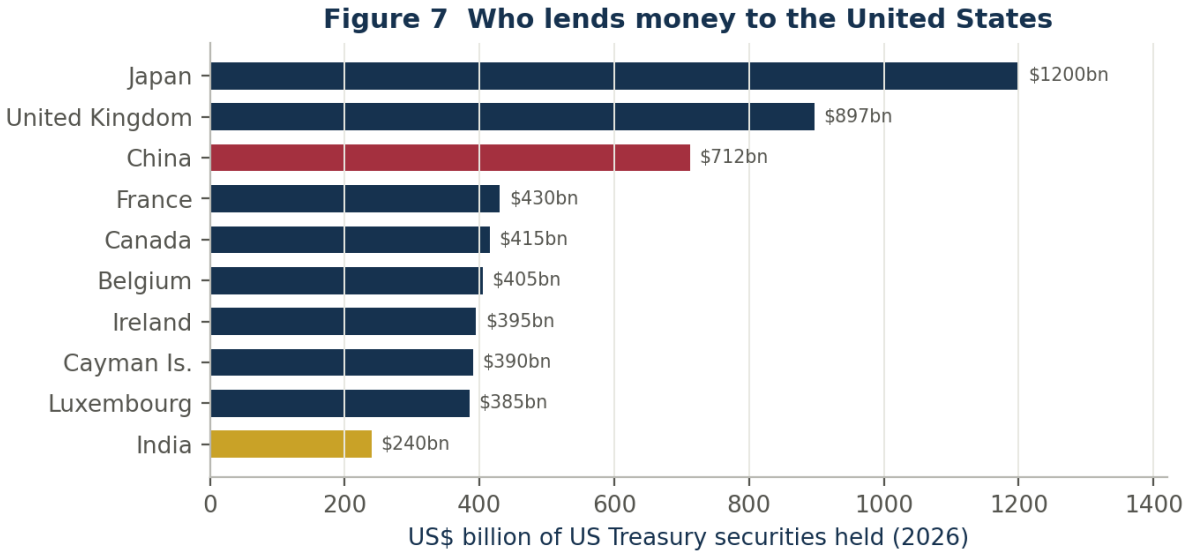

Figure 7. Foreign holders of US Treasury securities, 2026. Japan remains the largest at about $1.2 trillion, the UK second at roughly $897 billion — much of it custodial holdings for other owners — and China third at around $712 billion, down from a peak above $1.3 trillion in 2013. Note the presence of the Cayman Islands, Luxembourg, Belgium and Ireland: these are booking centres for hedge funds and custodians, not sovereign wealth. Source: US Treasury TIC data.

The composition of the $39.9 trillion

Table 31.1 — Who owns US federal debt, 2026 (approximate)

Holder	Approx. share	Notes
US government trust funds (Social Security, Medicare)	~18%	"Intragovernmental" — the government owing itself
Federal Reserve	~11%	Acquired through quantitative easing
US mutual funds, pensions, banks, insurers	~32%	American savers
US households and state/local government	~15%	
Foreign official and private holders	**~24%**	~$9.35 trillion, March 2026

MYTH CHECK — "CHINA OWNS AMERICA"

Claim: "China could destroy the US economy by dumping its Treasury holdings."

Reality: Four problems with this argument.

1. The size is wrong. China holds roughly $712 billion — about 1.8 per cent of total US federal debt and about 7.4 per cent of foreign-held debt. Japan holds substantially more. The Federal Reserve alone holds around six times as much.

2. Selling hurts the seller. Dumping $700 billion of bonds would crash their price, so China would take a large loss on the bonds it had not yet sold. It would also have to buy something with the proceeds — and the only markets deep enough are euros and yen, whose currencies would soar, damaging China's export competitiveness far more than it would damage America.

> **3. The Fed can absorb it.** The Federal Reserve bought over $4 trillion of bonds during 2020–22 without difficulty. It could buy China's entire holding.
>
> **4. China has been reducing its holdings for a decade anyway** — from over $1.3 trillion in 2013 to around $712 billion — and nothing happened.
>
> **The correct framing is the reverse.** A creditor holding an asset it cannot sell without harming itself is not a creditor with leverage. It is a hostage. This is what Keynes meant: "If you owe your bank a hundred pounds, you have a problem. If you owe your bank a million, the bank has a problem." China holds American IOUs; America holds Chinese exposure. On the evidence of 2022, the more relevant risk to China is that the assets could be frozen, not that selling them would be effective.

India's position

India holds roughly $240 billion in US Treasuries — part of the $703 billion in reserves, with the remainder in other currencies, deposits with the BIS and other central banks, IMF positions, and gold. India's gold holdings have risen above 880 tonnes, with over 100 tonnes repatriated from London vaults since 2022.

India is therefore in the same structural position as every other reserve-holding country: it lends to the United States at low yield in exchange for safety and liquidity, and in doing so accepts exposure to American political decisions. There is currently no alternative that offers the same combination of depth and liquidity, which is the whole point of Part III.

CHAPTER THIRTY-TWO

The IMF, the World Bank and the Price of Rescue

When a country runs out of foreign currency, there is one institution it can turn to. The terms it offers have shaped the development path of most of the world, and the argument about whether they help or harm is eighty years old and unresolved.

What the IMF actually does

The Fund lends foreign currency to countries facing balance-of-payments crises — that is, countries that cannot pay for imports or service foreign debt. It is not a development bank; the World Bank does long-term project lending. The IMF does emergency liquidity.

The lending comes with **conditionality**: a programme of policy changes the borrower must implement. The standard package, sometimes called the Washington Consensus:

- Cut the fiscal deficit — usually reducing subsidies and public sector wages
- Raise interest rates to defend the currency and curb inflation
- Devalue the currency to restore competitiveness
- Liberalise trade and remove import restrictions
- Privatise state-owned enterprises
- Deregulate markets and open to foreign investment

IN SIMPLE WORDS — THE ARGUMENT ON BOTH SIDES

The IMF's case: a country in this position has run out of money. Someone must lend, and no private lender will. The conditions exist because the policies that caused the crisis — usually spending more foreign currency than the country earns — must change, or the loan simply funds the same behaviour and the crisis returns. A doctor who prescribes rest to a patient with a broken leg is not the cause of the break.

The critics' case: the conditions are contractionary at exactly the wrong moment. Cutting spending and raising rates in a crisis deepens the recession, throws people out of work, and cuts health and education budgets that harm a generation. The IMF's own Independent Evaluation Office has conceded that fiscal targets in several programmes were too tight. And the governance is indefensible: voting power is proportional to financial contribution, the United States holds an effective veto through its ~16.5 per cent share, and by convention the Managing Director is always European while the World Bank President is always American.

The honest position: both are substantially right. The IMF is usually called in far too late, when the options are genuinely terrible, and is then blamed for the fact that the options are terrible. It has also, repeatedly, imposed austerity beyond what was necessary and been slow to admit it — Greece being the most documented case. Neither observation cancels the other.

Table 32.1 — Selected IMF programmes and outcomes

Country	Year	Size	Outcome
South Korea	1997	$57bn	Harsh terms, deep recession, then rapid recovery. Repaid early in 2001. Korea has never returned — and now holds huge precautionary reserves
India	**1991**	**$2.2bn**	**Triggered liberalisation. Repaid by 1993. Widely seen in India as the crisis that forced overdue reform**
Argentina	2018	$57bn	Largest programme in IMF history. Failed. Argentina defaulted again in 2020
Greece	2010–18	€289bn total	Economy shrank ~25%. The IMF later acknowledged it had underestimated the contractionary effects
Sri Lanka	2023	$2.9bn	Followed the 2022 default. Stabilised, at the cost of a severe contraction

Country	Year	Size	Outcome
Pakistan	2019, 2023, 2024	$6bn, $3bn, $7bn	24th programme since 1958. The pattern is the diagnosis

CASE STUDY — WHY INDIA REMEMBERS 1991 DIFFERENTLY

India's 1991 programme is unusual in being remembered domestically as a turning point rather than a humiliation — though it was both.

The facts: reserves fell to about $1.2 billion, enough for roughly three weeks of imports. India airlifted 47 tonnes of gold to the Bank of England and Union Bank of Switzerland as collateral. The IMF lent $2.2 billion. The rupee was devalued twice in three days by a combined 18–19 per cent. Licensing was dismantled, tariffs slashed from an average above 80 per cent, and foreign investment opened.

What made the difference from Argentina or Pakistan was that India used the crisis to change direction and then *kept going after the money was repaid*. Growth averaged over 6 per cent for the next two decades. Reserves went from $1.2 billion to $703 billion.

The lesson is not "IMF programmes work". It is narrower: **conditionality is only ever as useful as the borrower's own decision to reform.** Countries that reform because they have decided to, recover. Countries that reform because they were made to, return.

CHAPTER THIRTY-THREE

China as the World's New Creditor

In twenty years China went from a borrower to the largest bilateral creditor on earth, lending over $1 trillion to more than 100 countries. It is now the world's biggest debt collector, and it is discovering what that involves.

The Belt and Road Initiative, launched in 2013, financed ports, railways, power stations, highways and pipelines across Asia, Africa, Latin America and parts of Europe. The scale is without precedent for a single national lender: cumulative BRI-related lending is estimated above $1 trillion, exceeding the World Bank's development lending over the same period.

How Chinese lending differs

Table 33.1 — Chinese loans versus multilateral loans

	IMF / World Bank	Chinese policy banks
Typical interest rate	~2% or concessional	~5% (rescue lending), often 4–6% for projects
Maturity	Long, often 20–40 years	Shorter, typically 10–20 years
Conditions	Explicit policy conditionality	No policy conditions — but commercial terms, Chinese contractors, sometimes Chinese labour
Transparency	Published	Frequently confidential; non-disclosure clauses are common
Collateral	Rare	Common — resource-backed, escrow accounts, revenue assignments
Restructuring	Through the Paris Club, collectively	Bilateral, case by case; China is not a Paris Club member

IN SIMPLE WORDS — WHY COUNTRIES TOOK THE MONEY ANYWAY

A developing country wants a port. The World Bank offers cheap money but demands governance reforms, environmental studies and competitive tendering, and takes seven years. China offers money in eighteen months, no questions about your politics, and builds it.

If you are a government facing an election in three years, the choice is not difficult. The problem arrives later, when the port does not generate the revenue projected and the repayment is due in dollars.

MYTH CHECK — THE "DEBT TRAP" THESIS

Claim: "China deliberately lends unpayable sums in order to seize strategic assets when countries default."

The evidence is more mixed than either side admits.

Against the thesis: The most-cited example, Hambantota port in Sri Lanka, is more complicated than usually reported. Detailed research by Deborah Brautigam and others found that Sri Lanka requested the project, that Sri Lanka's debt distress was driven mainly by international sovereign bonds rather than Chinese loans, and that the 2017 lease was a decision by Colombo to raise dollars, not a seizure. China has also written down or restructured a substantial number of loans quietly. And China has now become a large *rescue* lender — over $240 billion in bailouts to 22 countries between 2008 and 2021 — which is not the behaviour of a creditor hoping for default.

For the thesis, or at least for serious concern: the opacity is real and deliberate; non-disclosure clauses prevent other creditors from assessing risk. Collateralisation and escrow arrangements do give China seniority over other lenders. The World Bank and IMF have identified eight BRI recipients — Djibouti, Kyrgyzstan,

> Laos, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan — at high risk of distress substantially connected to BRI borrowing. And China's reluctance to take losses alongside other creditors has materially slowed restructurings in Zambia, Sri Lanka and Ghana.
>
> **A fair summary:** the evidence supports "commercially aggressive, strategically opportunistic, and institutionally immature as a creditor" more than it supports "deliberate trap". The distinction matters, because the policy responses are different.

What this means for the dollar

Here is the twist that is usually missed. **Most Chinese lending is denominated in US dollars.** China lent dollars because that is what borrowers needed and what commodity revenues were priced in. So a Zambian copper mine financed by a Chinese bank generates dollar revenue to repay a dollar loan to a Chinese lender.

China has therefore spent a decade extending the dollar's reach while trying to reduce its own exposure to it. Beijing is now actively pushing to redenominate new BRI lending in renminbi, and the New Development Bank has targeted 30 per cent local-currency lending by 2026. That shift, if it succeeds at scale, would be one of the more consequential changes in the system — because it would create genuine offshore demand for yuan that is not driven by sanctions avoidance.

CHAPTER THIRTY-FOUR

Four Debt Crises, One Pattern

Sri Lanka, Pakistan, Zambia and Argentina. Different continents, different politics, different creditors — and a sequence of events so similar it can be written as a single script.

The script. **(1)** Cheap foreign money becomes available, usually when global interest rates are low. **(2)** The country borrows in dollars for projects, or to cover a budget gap. **(3)** Something reduces foreign earnings — a commodity price fall, a tourism collapse, a policy error. **(4)** Global rates rise, the dollar strengthens, and the debt becomes more expensive in local currency at exactly the moment earnings fall. **(5)** Reserves drain defending the currency. **(6)** Fuel, food and medicine imports stop. **(7)** Default. **(8)** IMF programme, austerity, devaluation, contraction. **(9)** Slow recovery, and the beginning of the next cycle.

Sri Lanka, 2022

The clearest recent case and the most instructive for India, because it happened next door.

Sri Lanka borrowed heavily through international sovereign bonds during the low-rate 2010s — these, not Chinese loans, were the largest single component of its external debt. It then made three compounding errors: deep tax cuts in 2019 that removed roughly a third of government revenue; a sudden overnight ban on chemical fertiliser in 2021 that cut rice yields by around 20 per cent and destroyed tea export earnings; and a defence of an overvalued rupee that burned through reserves. COVID had already eliminated tourism, worth about $4.4 billion a year.

By April 2022 usable reserves were under $50 million. The country could not buy fuel. Power cuts ran to thirteen hours a day. Inflation exceeded 70 per cent. In July, protesters occupied the presidential palace and the president fled the country. Sri Lanka defaulted on about $51 billion of external debt — its first default since independence in 1948.

> **THE UNCOMFORTABLE PART — WHAT INDIA DID, AND WHY**
>
> India extended roughly $4 billion in credit lines, currency swaps and deferred payments to Sri Lanka during 2022 — more than the IMF's initial programme and more than any other country. Part of this was settled in rupees.
>
> Read that carefully, because it is a template. A financially stronger neighbour provided emergency liquidity, some of it in its own currency, at a moment when no one else would. That is precisely how a currency starts becoming regionally useful — not through summits, but through being the money that was actually available when it was needed. Chapter 40 argues this is India's single most realistic path.

Pakistan

Twenty-four IMF programmes since 1958 — among the highest in the world. The structural problem is chronic: a tax-to-GDP ratio persistently around 9–10 per cent, one of the lowest for any economy of its size; a large defence budget; energy sector circular debt; and export earnings concentrated in low-value textiles. External debt is around $130 billion, with substantial obligations to China, Saudi Arabia and the UAE alongside multilateral creditors. In 2023 reserves fell to about three weeks of imports before a $3 billion standby arrangement, followed by a $7 billion programme in 2024.

Pakistan's case demonstrates the limit of the IMF model: repeated liquidity support cannot fix a solvency problem rooted in an inability to collect tax.

Zambia

Africa's first pandemic-era default, in November 2020, on about $17 billion of external debt, of which roughly $6 billion was owed to Chinese lenders. Restructuring took until 2023–24 — more than three years — largely because bondholders, the Paris Club and Chinese lenders could not agree on comparable treatment, with each unwilling to accept a larger loss than the others. Zambian citizens spent three years in an economy with no access to international capital while the creditors argued.

Zambia is the clearest evidence that the international debt restructuring architecture, designed when creditors were a small club of Western governments, does not function now that China, private bondholders and multilaterals must all agree.

Argentina

Nine sovereign defaults since 1816, three since 2001. The 2001 collapse ended a currency board that had pegged the peso 1:1 to the dollar for a decade: when the peg broke, the peso lost about 70 per cent, dollar-denominated savings were forcibly converted at unfavourable rates ("corralito"), and poverty exceeded 50 per cent. The 2018 IMF programme was the largest in the Fund's history at $57 billion, and Argentina defaulted again in 2020.

Argentina is the standing demonstration that no external programme can substitute for domestic political consensus about fiscal discipline. It is also why Argentines hold an estimated $200–250 billion in physical US dollars — more per capita than almost any nation on earth. When a state repeatedly destroys its own money, its citizens adopt someone else's. That is dollarisation from below, and no policy reverses it quickly.

> THE FIVE LESSONS
>
> 1. **Never borrow long in a currency you cannot earn or create.** This single rule would have prevented most sovereign debt crises in history.
> 2. **Reserves are not a luxury.** The difference between India in 2026 and Sri Lanka in 2022 is substantially a reserves buffer measured in months of imports.
> 3. **Defending an overvalued currency destroys reserves and postpones nothing.** Every country that has tried has ended up with the devaluation anyway, minus its reserves.
> 4. **Tax capacity is the foundation of sovereignty.** Pakistan's problem is not that it borrows; it is that it cannot collect. India's tax-to-GDP ratio of roughly 18 per cent (all levels) is adequate but not high for its stage of development.
> 5. **Crises are political before they are financial.** Sri Lanka's tax cut and fertiliser ban were political decisions, taken quickly, with catastrophic financial consequences.

PART VII

India

Three thousand years of monetary history, two currency crises, one liberalisation, and a position in 2026 that is stronger than at any point since independence — and still a long way from what the rhetoric suggests.

CHAPTER THIRTY-FIVE

Three Thousand Years of Indian Money

India was one of the three independent inventors of coinage, ran the world's largest economy for most of recorded history, absorbed a large share of the world's silver, and then lost control of its own currency for two centuries.

c. 600 BCE
Punch-marked silver *karshapana* appear across the Mahajanapadas — among the world's earliest coinages, contemporaneous with Lydia and China.

c. 300 BCE
The *Arthashastra* describes a state mint, a superintendent of coinage, testing of purity, and penalties for counterfeiting — a fully articulated monetary administration.

c. 100 BCE – 300 CE
Indo-Greek, Kushan and Satavahana coinage. Roman gold flows into India for pepper, textiles and gems in such volume that Pliny the Elder complains India is "the sink of the world's gold".

320–550 CE
Gupta gold *dinaras* — among the finest coins of the ancient world.

1206–1526
Delhi Sultanate silver *tanka* and copper *jital*. In 1329 Muhammad bin Tughlaq issues token brass and copper coins at silver value — an early experiment in fiat money. Widespread forgery destroys it within a few years; the coins are withdrawn.

1540–45
Sher Shah Suri issues the silver *rupiya* of about 178 grains — the direct ancestor of today's rupee, and of the currencies of Pakistan, Sri Lanka, Nepal, Mauritius, Indonesia and the Maldives.

1556–1707
Mughal monetary system: gold *mohur*, silver rupee, copper *dam*, with a sophisticated network of *sarrafs* (money changers) and *hundis* (bills of exchange) that moved credit across the subcontinent without moving coin.

1500–1750
India is estimated to account for roughly a quarter of world GDP, and absorbs a large share of New World silver in payment for textiles, spices and indigo. India was the world's manufacturing centre.

1757–1858
East India Company rule. Land revenue is collected and used to purchase Indian goods for export — the "investment" — meaning Indian exports are paid for with Indian taxes.

1835
The Coinage Act standardises a single silver rupee across British India.

1873–93
World silver prices collapse. The rupee falls from about 2 shillings to 1s 2d, and Britain's rupee-denominated tax revenue no longer covers its sterling obligations.

1893–99
Mints closed to free silver coinage; rupee fixed at 1s 4d under a gold exchange standard. India's reserves are held in London as sterling.

1913
Keynes publishes *Indian Currency and Finance*, his first book, on precisely this system.

1935
The Reserve Bank of India is established, following the Hilton Young Commission. Nationalised in 1949.

1939–45

India supplies the Allied war effort on credit, accumulating £1.3bn in sterling balances — and severe wartime inflation, contributing to the Bengal famine of 1943.

KEY INSIGHT

India's monetary history contains a recurring pattern worth naming. India has repeatedly been a producer of enormous real value — textiles, spices, steel, later software and pharmaceuticals — while the *financial infrastructure through which that value was settled* was controlled elsewhere: in silver flows India did not mint, in London sterling balances India could not spend, and today in dollar clearing India does not operate.

The productive capacity was never the constraint. The settlement layer was. This is the single most useful frame for reading Chapters 39 and 40.

CHAPTER THIRTY-SIX

1947 to 1991: Scarcity, Control and Collapse

Independent India inherited a currency at 3.3 to the dollar and a claim on Britain it could not use. Forty-four years later it had 3.3 weeks of import cover and was flying its gold to London.

Figure 6 Rupees needed to buy one US dollar, 1947–2026 (log scale)

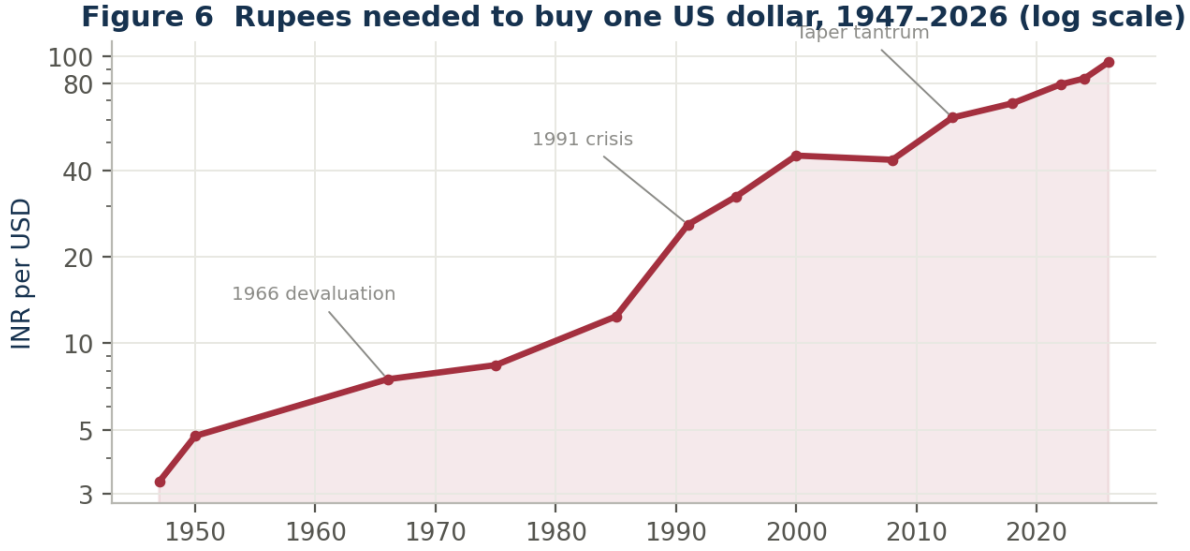

Figure 6. The rupee against the dollar, on a logarithmic scale so that equal vertical distances represent equal percentage changes. The three step-changes are policy decisions — 1966, 1991 and 1993 — while the rest is the steady grind of an inflation differential of roughly 3 to 4 percentage points a year. Sources: RBI; Federal Reserve H.10.

The chosen model, and its logic

Independent India adopted import substitution: build everything domestically, restrict imports, license industry, control foreign exchange. The reasoning was not foolish. India had watched two centuries in which openness to trade under someone else's terms had deindustrialised the country. The share of world manufacturing output held by India fell from roughly a quarter in 1750 to about 2 per cent by 1900. Self-reliance was a rational response to that experience.

The system had real achievements: a heavy industrial base, IITs and IIMs, the atomic and space programmes, the Green Revolution which took India from famine-vulnerable to food-surplus, and a diversified industrial structure that most post-colonial economies never built.

It also produced the licence raj. By the 1980s an entrepreneur needed dozens of approvals to start a factory, expand capacity, or import a machine. Waiting lists for a scooter ran to years. Foreign exchange was rationed by the RBI. Growth averaged about 3.5 per cent — the "Hindu rate of growth", a phrase coined by the economist Raj Krishna — against 7 to 10 per cent in East Asia.

1966: the first devaluation

Two failed monsoons, the 1965 war with Pakistan, a suspension of US food aid, and a fiscal deficit the country could not finance. Under pressure from the World Bank and the United States, Indira Gandhi devalued the rupee on 6 June 1966 from 4.76 to 7.50 to the dollar — a cut of about 36 per cent.

It was politically catastrophic. Exports did not respond quickly because export capacity was limited by the licensing system itself, prices rose, and the promised aid arrived slowly and with conditions. The episode entrenched a deep suspicion of devaluation and of Western advice in Indian policy circles that lasted a generation, and arguably delayed reform by fifteen years.

1991: the crisis that changed everything

Aug 1990
Iraq invades Kuwait. Oil prices double. India's import bill soars, and remittances from ~200,000 Indian workers in the Gulf stop. India spends heavily evacuating them.

1990–91
Fiscal deficit reaches about 8.5% of GDP. Political instability: three governments in eighteen months.

Jan–Mar 1991
Moody's and Standard & Poor's downgrade India below investment grade. Non-resident Indians withdraw deposits. Commercial lenders refuse to roll over short-term credit.

May–Jul 1991
Reserves fall to about **$1.2 billion — roughly three weeks of imports**. India secretly airlifts **47 tonnes of gold** to the Bank of England and Union Bank of Switzerland as collateral for a $600m loan. When the news leaks, it becomes a national humiliation.

1–3 Jul 1991
The RBI devalues the rupee twice in three days, by a combined 18–19%, in an operation known internally as the "hop, skip and jump".

24 Jul 1991
Finance Minister Manmohan Singh presents the reform budget, quoting Victor Hugo: "No power on earth can stop an idea whose time has come."

1991–93
Industrial licensing abolished for most sectors. Tariffs cut from a peak above 300% and an average above 80%. FDI opened. The rupee moves to a dual and then a unified market-determined rate in March 1993. IMF loans repaid by 1993.

CASE STUDY — WHAT 1991 ACTUALLY TEACHES

Three lessons, and the third is the one usually missed.

1. A balance-of-payments crisis is not a budget crisis. India's problem in 1991 was not that it owed too much in rupees. It was that it had no dollars. A country can be fiscally sound and still collapse if it cannot pay for imports. This is why reserves, export earnings and remittances matter independently of the fiscal position.

2. Reform happened because there was no alternative. The same economists had been making the same arguments for a decade. What changed was that the option of not reforming disappeared. This is uncomfortable but historically typical.

3. The gold was the turning point psychologically, not financially. $600 million was a rounding error. But the image of India's gold on an aircraft to London — the reversal of two centuries of extraction — created the political permission for change that economic argument had not. National humiliation is an underrated policy instrument, and India has never forgotten it. Every subsequent decision about reserves, from 1991 to the $703 billion held today, traces to that week.

KEY NUMBERS — BEFORE AND AFTER

Measure	1991	2026
Foreign exchange reserves	$1.2 bn	~$703 bn
Import cover	3 weeks	~10–11 months
GDP (nominal)	~$270 bn	~$4.3 tn
Exports of goods & services	~$23 bn	~$820 bn
Average tariff	>80%	~15% (still high by global standards)
Rupee per dollar	25.9	~95.2

Measure	1991	2026
Poverty (extreme, World Bank line)	~45%	under 12%

CHAPTER THIRTY-SEVEN

Where India Stands in 2026

The honest balance sheet, with the flattering numbers and the unflattering ones on the same page.

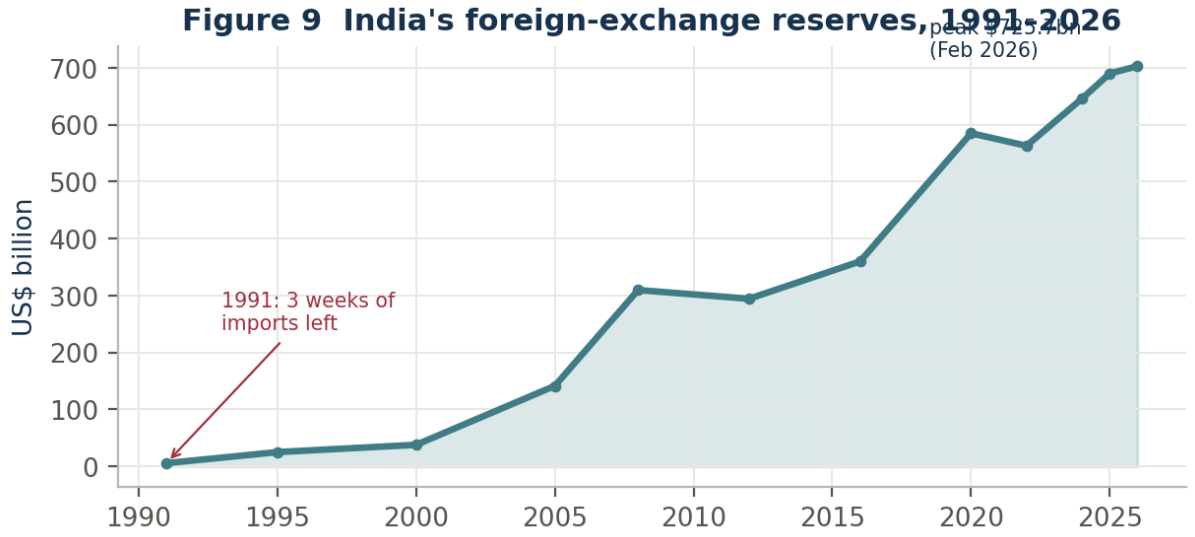

Figure 9. India's reserves reached an all-time high of $725.7 billion in February 2026 before easing to roughly $703 billion by mid-year. The 1991 figure is barely visible on this scale, which is the point. Sources: RBI weekly statistical supplement; CEIC.

The strong numbers

$4.3tn	$18.9tn	~6.5%	$703bn	~$135bn
Nominal GDP — 4th largest by IMF measure	PPP GDP — 3rd largest	Growth — fastest of any large economy	FX reserves — 4th largest in the world	Annual remittances — largest recipient globally

- **Services exports of roughly $390 billion**, growing at double digits — IT services, global capability centres, engineering R&D, professional services. India is the world's largest exporter of digitally deliverable services after the United States.
- **A domestic market of 1.45 billion people**, with a middle class that adds tens of millions a year. Scale is a genuine strategic asset that most countries cannot manufacture.
- **UPI** processing well over 20 billion transactions a month — the largest real-time payments system in the world by volume, and now linked to fast-payment systems in Singapore, the UAE, France, Nepal, Bhutan, Sri Lanka and Mauritius.
- **Demographics**: median age around 29, against 39 in China and 49 in Japan. India will supply a large share of the world's net addition to the labour force to 2050.
- **Public debt held domestically in rupees** — roughly 95 per cent, insulating India from the external default mechanism described in Chapter 30.

The weak numbers

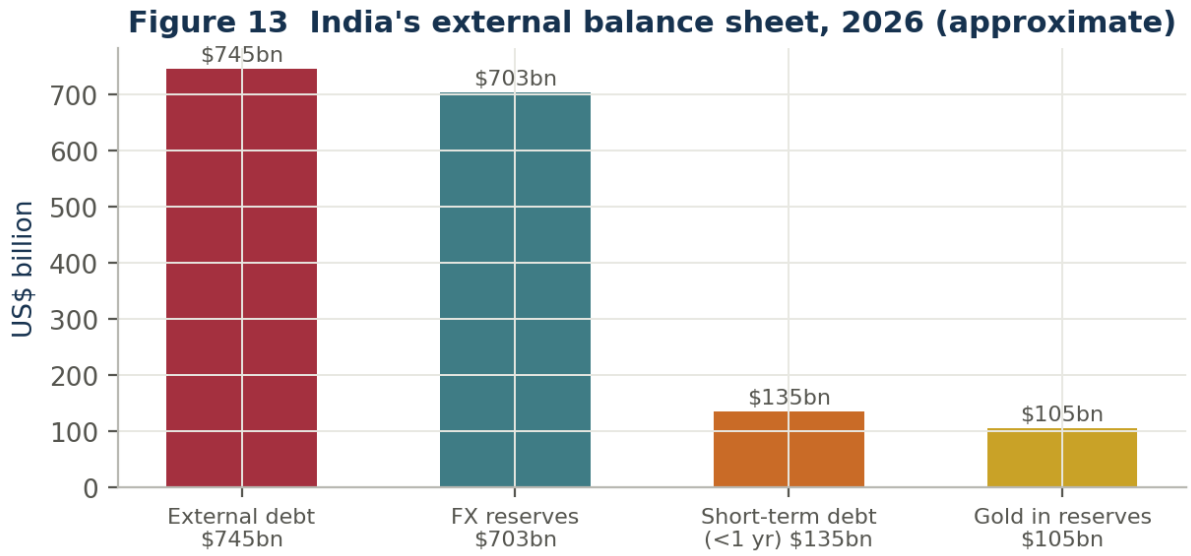

Figure 13. India's external debt of roughly $745 billion slightly exceeds its reserves, but short-term debt due within a year is around $135 billion — comfortably covered. This ratio, not the headline total, is what determines vulnerability. Sources: RBI; Ministry of Finance status reports.

- **Nominal GDP per capita of about $2,900** — around 140th in the world, comparable to Vietnam and below Indonesia and the Philippines. India is a large economy of not-yet-prosperous people.
- **A persistent merchandise trade deficit of roughly $280–300 billion a year**, driven by crude oil (about 85 per cent imported), electronics, gold and coal. Services and remittances offset most of it, leaving a current account deficit of about 1–1.5 per cent of GDP — manageable, but a structural dependence on the world's willingness to keep financing it.
- **Manufacturing stuck at roughly 15–17 per cent of GDP**, against a stated policy target of 25 per cent and China's 27–30 per cent. Production-Linked Incentive schemes have delivered in electronics assembly and pharmaceuticals but not yet transformed the aggregate.
- **Bond market depth**: India's government securities market is around $1.3 trillion against the US Treasury market's $29 trillion. Foreign ownership of Indian government bonds is roughly 3–5 per cent even after inclusion in the JP Morgan GBI-EM index from June 2024.
- **Public debt around 81 per cent of GDP** (Centre and states combined) — higher than most emerging peers and a real constraint on fiscal space.
- **Female labour force participation** around 33–37 per cent, against roughly 60 per cent in China. This is the largest single unexploited growth reserve India has.

THE UNCOMFORTABLE PART — TWO NUMBERS THAT DEFINE THE CEILING

$390 billion of services exports against $280–300 billion of merchandise trade deficit. India's external position is held up by services and by remittances from workers abroad. Both are real strengths. Both are also concentrated: a large share of IT services revenue comes from US and UK clients, and a large share of remittances comes from the Gulf. Both are exposed to shocks India does not control — an AI-driven restructuring of outsourced services, a US immigration or tax change, an oil price collapse in the Gulf.

Foreign ownership of Indian government bonds: 3–5 per cent. This is protective — India cannot suffer a sudden foreign exodus from its bond market — and it is also disqualifying. A reserve currency requires foreigners to hold your debt in volume. India currently has the safety that comes from being closed and the irrelevance that comes with it. You cannot have the protection and the international role at once. That is the trilemma of Chapter 21 restated in one sentence, and it is the central strategic choice facing Indian policy in the next decade.

CHAPTER THIRTY-EIGHT

India's Real Strengths and Real Weaknesses

Measured against the seven pillars of Chapter 13, item by item, without flattery in either direction.

Table 38.1 — India against the seven pillars of reserve currency status

Pillar	India's position, 2026	Score	What would have to change
1. Deep safe-asset market	G-sec market ~$1.3tn; foreign ownership 3–5%; limited liquidity in longer tenors; no deep repo market for foreigners	2/10	Full index inclusion, foreign ownership above 20%, a functioning offshore rupee bond market, settlement through Euroclear
2. Rule of law & property rights	Independent judiciary and a genuine constitutional tradition — a real advantage over China. But contract enforcement averages around 1,400 days; tax disputes are notoriously long; retrospective taxation (Vodafone, Cairn) did lasting reputational damage	5/10	Commercial court capacity, arbitration enforcement, predictability of tax administration
3. Open capital account	Current account convertible; FDI largely open; portfolio flows, ECB and outward investment restricted; LRS capped at $250,000	3/10	Phased and sequenced liberalisation — the hardest and most dangerous item on this list
4. Network effects	Effectively zero for the rupee as an international currency. Some regional use in Nepal, Bhutan and specific corridors	1/10	Decades of accumulated use; cannot be legislated
5. Military reach & alliances	4th largest defence budget; strong regional position; strategic autonomy doctrine means few formal alliances; still a net arms importer	5/10	Defence industrial base, blue-water naval capability, regional security guarantees
6. Energy & food self-sufficiency	**Food: strong** — net exporter of rice and several commodities. **Energy: weak** — ~85% of crude imported, the single largest strategic vulnerability	4/10	Renewables and nuclear at scale, storage, electrification of transport
7. Technology & institutional stack	Genuine world-class assets: UPI, Aadhaar, ONDC, the digital public infrastructure stack now being exported. Weak in semiconductors, advanced manufacturing, frontier research	5/10	R&D spending is ~0.65% of GDP against 2.4% in China and 3.5% in the US. This is the most fixable item

Total: 25/70. *For comparison, the US would score close to 70, the euro area around 45, China around 25 on a different distribution — strong where India is weak, weak where India is strong.*

THE ONE STRENGTH NOBODY COUNTS

India has an asset that neither China nor Russia can acquire and that no policy can manufacture: **it is trusted by both sides.**

India buys discounted Russian crude and conducts joint exercises with the United States. It is in BRICS and in the Quad. It is in the Shanghai Cooperation Organisation and in I2U2. Its diaspora runs significant parts of American and British corporate and political life. It has a border dispute with China and a trade relationship worth over $130 billion.

In a world dividing into blocs, the country that can transact with both is not sitting on a fence — it is occupying the most valuable position on the board. Every other player needs a channel to the other side, and India is the only large economy that credibly offers one.

This does not make the rupee a reserve currency. It does make India the most plausible *intermediary* in a fragmenting system, which is a different and more achievable ambition. Chapter 40 builds on it.

THE UNCOMFORTABLE PART — FOUR THINGS INDIAN STRATEGY DOCUMENTS RARELY SAY

1. India's trade deficit is the binding constraint on rupee internationalisation. To internationalise a currency you must supply it to the world — which means running deficits with countries that then hold your currency. India does run deficits. But partners who accumulate rupees find there is little to buy with them: few rupee assets, restricted markets, and limited Indian exports they want. Russia's accumulated rupee balances from oil sales became a widely reported problem for exactly this reason. *Supplying rupees is easy; making them worth holding is not.*

2. India cannot both restrict capital and internationalise. Chapter 21. There is no version of this that avoids the trade-off.

3. India's manufacturing share has not moved in twenty years. Despite Make in India, PLI schemes and the China-plus-one narrative, manufacturing remains around 15–17 per cent of GDP. Services have carried India's growth. Services do not employ the tens of millions leaving agriculture. This is India's central domestic economic problem, and it matters more than the dollar.

4. Energy dependence is the sharpest vulnerability. Every $10 on the crude price costs India roughly $13–15 billion a year and pushes the rupee down. Any strategy for monetary sovereignty that does not begin with energy is not a strategy. The renewables build-out is not an environmental programme; it is a currency programme.

CHAPTER THIRTY-NINE

Rupee Internationalisation: The Scorecard

India has been pursuing this seriously since 2022. Here is exactly what has been built, exactly what it has achieved, and exactly where it has stalled.

What has actually been done

Table 39.1 — The rupee internationalisation programme, 2022–2026

Initiative	Detail	Assessment
Special Rupee Vostro Accounts (July 2022)	123 correspondent banks from **30 countries** have opened **156 SRVAs** with 26 Indian banks. Prior RBI approval for opening them has been removed	Infrastructure genuinely built. Volumes remain modest relative to total trade
Local Currency Settlement agreements	UAE (2023), Indonesia, Maldives, Mauritius, Sri Lanka. Direct INR–AED and INR–IDR quotation	The UAE agreement is the most significant — a real corridor with real trade behind it
Rupee invoicing data published (Jan 2026)	RBI Bulletin now publishes the share of India's exports and imports invoiced and settled in rupees	Small but important: measurement precedes management
INR accounts for overseas bank branches (2025)	Overseas branches of authorised Indian banks may open rupee accounts for non-residents	Creates the beginnings of an offshore rupee pool
UPI international linkages	Singapore (PayNow), UAE, France, Nepal, Bhutan, Sri Lanka, Mauritius, Namibia, Peru and others adopting or licensing the stack	**India's strongest card.** Exporting the rails, not just the currency
e₹ (digital rupee)	Retail and wholesale pilots running; cross-border pilots under discussion	Behind China's e-CNY but architecturally sound
Bond index inclusion	JP Morgan GBI-EM from June 2024; Bloomberg EM index 2025; FTSE Russell announced	Brought an estimated $20–30bn of passive inflows. The single most consequential financial reform of the period
Bilateral currency swaps	Sri Lanka, Maldives, Bhutan, Nepal; SAARC swap framework	Regional, small, but this is exactly how sterling and the dollar started

What it has achieved, honestly

THE NUMBERS, WITHOUT SPIN

The rupee's share of global foreign exchange reserves: **not separately reported by the IMF** — it falls within the "other currencies" category, which totals about 4 per cent across all non-major currencies combined.

The rupee's share of global SWIFT payments: **consistently under 0.2 per cent**, ranking outside the top fifteen currencies.

The rupee's share of global FX turnover (BIS): roughly **1.6 per cent** of the 200 per cent total — that is, the rupee is on one side of about 1.6 per cent of trades, up from 1.0 per cent in 2010. Real growth, from a very small base.

Share of India's own exports invoiced in rupees: in the low single digits.

THE UNCOMFORTABLE PART — THE RUSSIA RUPEE PROBLEM

The clearest test case of the SRVA mechanism came from the corridor where India had the most leverage.

After 2022, India dramatically increased purchases of Russian crude — from under 2 per cent of its imports to over a third at peak. Some of it was settled in rupees through vostro accounts. Russia accumulated large rupee balances.

And then Russia discovered the problem. India ran a large trade surplus with Russia in the wrong direction — India bought far more from Russia than it sold. So Russia was accumulating rupees at a rate it could not spend. Indian government bonds were only partially accessible; Indian exports Russia wanted were limited; converting rupees to other currencies at scale meant taking a spread and hitting market depth limits. Russian officials publicly described billions of rupees as effectively stranded. Settlement shifted substantially to dirhams and yuan.

This is the whole problem of rupee internationalisation in one episode, and it is worth stating precisely: *a currency is not internationalised by persuading someone to accept it. It is internationalised by giving them something worth doing with it afterwards.* That requires deep, open, liquid rupee asset markets — which requires capital account opening — which is exactly the thing India has decided not to do yet. Everything else is plumbing without water.

MYTH CHECK

Claim: "India is leading the de-dollarisation of the world economy."

Reality: Indian officials have repeatedly and explicitly denied this. The External Affairs Minister has stated on multiple occasions that India has "no interest in weakening the dollar" and that de-dollarisation is not Indian policy. The RBI's own framing is *internationalisation of the rupee*, which is a defensive and commercial objective — reduce transaction costs, reduce hedging costs, reduce dependence on a single settlement channel — not an offensive one.

This is not timidity. It is a correct reading of India's position. India holds $703 billion in mostly dollar reserves, needs American capital markets, exports heavily to the United States, and is not in a position to want the dollar's value to fall. India's realistic interest is in *optionality*, not overthrow.

CHAPTER FORTY

What India Can Realistically Do

Not a wish list. A sequenced programme, ordered by what must happen before what, with an honest note on which parts are hard and which are dangerous.

The strategic frame first, because it determines everything below. India should not be trying to replace the dollar. That is not achievable this century and pursuing it would waste resources and antagonise a partner India needs. India should be pursuing three narrower objectives:

Objective 1 — Reduce the cost of the current system. Every dollar-intermediated transaction between India and a non-dollar partner pays a conversion spread twice. Direct settlement removes it. This is worth real money and requires no geopolitics.

Objective 2 — Build optionality against disruption. If India were ever subject to secondary sanctions, or if a US–China conflict disrupted dollar clearing, India needs working alternatives. Insurance, not rebellion.

Objective 3 — Make the rupee regionally significant by 2040. Not global. Regional: South Asia, the Gulf corridor, parts of Africa and Southeast Asia. This is achievable and would be historically unprecedented for India.

Tier 1 — High impact, low risk, do now

Deepen the government bond market for foreigners

Complete index inclusion, allow full settlement through Euroclear and Clearstream (currently blocked by a disagreement over foreign oversight of Indian clearing), extend the yield curve, develop a genuine repo and derivatives market. *This is the single highest-return action available and it is largely technical rather than political.*

Export the digital public infrastructure stack aggressively

UPI, Aadhaar-equivalents, ONDC, account aggregator frameworks. Every country running Indian rails is a country whose payment flows can eventually be settled in rupees. This is India's most distinctive asset and it is being under-exploited relative to its potential.

Expand local currency settlement where the trade balance permits

Focus on corridors where India runs a *deficit* — so the partner accumulates rupees they can spend on Indian goods — or where India runs a surplus and can accept partner currency. The UAE corridor works because trade is large and roughly two-way.

Build rupee-denominated trade finance capacity

Trade finance is 81 per cent dollar (Figure 3) because banks can fund and hedge dollars. Indian banks issuing rupee letters of credit for regional trade, backed by RBI liquidity facilities, would address the binding constraint directly.

Continue accumulating gold and repatriating it

The RBI has moved over 100 tonnes back from London since 2022 and holds over 880 tonnes. This is cheap, uncontroversial insurance against the Chapter 16 risk.

Tier 2 — High impact, medium risk, do over 5–10 years

Sequenced capital account liberalisation

The correct order, established by the Asian crisis literature and by the Tarapore Committee reports: first strengthen banks and supervision, then deepen domestic bond and derivative markets, then liberalise long-term inflows, then long-term outflows, then short-term flows *last*. The 1997 Asian crisis happened to countries that opened to short-term capital before their banking systems could handle it. *This is where India can genuinely damage itself if it moves fast.*

Rupee-denominated commodity contracts

India is the world's third-largest oil importer and among the largest buyers of gold, coal, edible oil and pulses. A liquid rupee-settled commodity exchange with genuine international participation would create structural rupee

demand. China has attempted this with mixed results; India's advantage is that its buyers are private and its exchanges are credible.

Regional swap network

Expand beyond the SAARC framework to a standing facility for South Asia, the Gulf and East Africa. The Chiang Mai Initiative is the model. This is how a currency becomes the regional lender of last resort, which is how it becomes a reserve asset.

Cross-border e₹ corridors

India should be building bilateral CBDC settlement with the UAE, Singapore, Sri Lanka and Bhutan now, before the mBridge architecture becomes the default standard for Asia.

Tier 3 — The domestic foundations, which matter more than all of the above

Fix energy dependence

85 per cent import dependence on crude is the single largest structural weakness. Renewables, storage, nuclear and transport electrification are, in monetary terms, a current-account programme. Every percentage point of import dependence removed is permanent support for the rupee.

Raise manufacturing to 20–25 per cent of GDP

Not for its own sake, but because services cannot absorb the labour leaving agriculture, and because a currency's international role ultimately rests on the world needing what you make.

Raise R&D from 0.65 per cent of GDP

China is at 2.4 per cent, the US at 3.5 per cent, Korea above 4 per cent. This is the most mechanically fixable number in this entire report and it compounds over decades.

Female labour force participation

At roughly 33–37 per cent against China's ~60 per cent, this is the largest untapped growth reserve India possesses. Closing half the gap would add materially to GDP growth for two decades.

Contract enforcement and legal predictability

Pillar 2 of Chapter 13 is India's genuine comparative advantage over China — and it is underdelivered. Around 1,400 days for contract enforcement, and a history of retrospective taxation, undercut the one thing India can offer that Beijing structurally cannot.

What India should not do

- **Do not pursue a BRICS common currency.** It would mean monetary union with China, whose economy is five times larger, with which India has an unresolved border dispute and a large trade deficit. India would be Greece in that arrangement.
- **Do not open the capital account rapidly.** Thailand 1997, Korea 1997, Indonesia 1998. The sequencing is not bureaucratic caution; it is the accumulated evidence of what happens otherwise.
- **Do not target a "strong rupee" as a policy goal.** Chapter 19 and Chapter 24. It would tax India's exporters at exactly the moment India is trying to build them.
- **Do not frame this as confrontation with the United States.** India needs American capital markets, American technology partnerships, and the American market for its services exports. The objective is optionality, and optionality is quieter than opposition.

> THE REALISTIC DESTINATION
>
> If India executes Tier 1 well, most of Tier 2, and makes real progress on Tier 3, a plausible 2040 position is:
>
> - Rupee at roughly **1–2 per cent of global reserves** — around where the yuan is today.
> - **15–25 per cent of India's own trade** settled in rupees, concentrated in South Asia, the Gulf and Africa.
> - A genuinely deep government bond market with **15–20 per cent foreign ownership**.
> - The rupee as the **regional anchor currency for South Asia**, in the way the rand functions in southern Africa or the Australian dollar in the Pacific.
> - Indian-built payment infrastructure running in **30–50 countries**.

> That would be a historic achievement. It would not break the dollar's monopoly, and it is not intended to. It would make India substantially less exposed to it, which is the objective worth pursuing.

CHAPTER FORTY-ONE

SWOT: India Against the Dollar

The four quadrants, with the evidence from the preceding forty chapters compressed into one page.

STRENGTHS

- Fastest-growing large economy; ~6.5% growth with the runway to sustain it
- 3rd largest by PPP, 4th–6th nominal — and rising in both
- $703bn reserves; ~10–11 months of import cover
- ~95% of public debt in rupees, held domestically — structurally immune to external default
- World's largest remittance inflow (~$135bn) — a stable, non-debt-creating source of foreign exchange
- UPI: the world's largest real-time payment system, now being exported
- Independent judiciary and a constitutional tradition — the pillar China cannot replicate
- Demographics: median age 29; a growing labour force to 2050
- Strategic trust from both blocs — the only large economy that credibly transacts with both
- Food self-sufficiency and a net agricultural export position

WEAKNESSES

- Capital account not convertible — the single disqualifying constraint (Ch. 21)
- G-sec market ~$1.3tn against $29tn for US Treasuries; foreign ownership only 3–5%
- Persistent merchandise trade deficit of ~$280–300bn
- ~85% crude import dependence — the sharpest vulnerability
- Manufacturing stuck at 15–17% of GDP for two decades
- Nominal GDP per capita ~$2,900 — roughly 140th in the world
- Public debt ~81% of GDP limits fiscal space
- R&D at ~0.65% of GDP against China's 2.4%
- Contract enforcement ~1,400 days; history of retrospective taxation
- Female labour force participation ~33–37%
- Rupee under 0.2% of SWIFT payments — effectively zero network effect

OPPORTUNITIES

- Bloc fragmentation creates demand for a neutral intermediary — India is the only credible one
- China-plus-one supply chain diversification, already redirecting real investment
- Digital public infrastructure as an export: every country on Indian rails is a future rupee corridor
- Bond index inclusion (JP Morgan, Bloomberg, FTSE) opening passive foreign flows
- Regional leadership vacuum in South Asia — Sri Lanka 2022 showed India can be the lender of first resort
- Gulf corridor: large two-way trade, an existing LCS agreement, huge Indian diaspora
- CBDC interoperability still unsettled — standards are being written now
- Balassa–Samuelson convergence raises India's nominal world share mechanically as it grows
- Global services trade shifting towards digitally deliverable services, India's strongest sector
- Africa: rising trade, few incumbent currency relationships, receptive to Indian DPI

THREATS

- The dollar's network effect is self-reinforcing and has survived every challenger since 1944
- Yuan and CIPS are far ahead on infrastructure and moving faster
- Dollar stablecoins are extending dollar reach into exactly the markets India would target
- Oil price shocks transmit directly to the rupee and to inflation
- Fed policy shifts trigger capital outflows regardless of Indian fundamentals (2013 precedent)
- AI-driven restructuring of IT services could compress India's largest export earner
- Premature capital account opening could produce a 1997-style sudden stop
- China–India strategic rivalry limits BRICS as a usable vehicle
- US secondary sanctions risk if India's Russia trade is targeted
- Climate: monsoon variability affects ~46% of the CPI basket directly

READING THE SWOT HONESTLY

The pattern is clear and it is not the flattering one. **India's strengths are real but almost entirely domestic. India's weaknesses are almost entirely about international financial integration.**

India has built a large, fast-growing, increasingly sophisticated economy behind a set of walls that protect it. Those same walls prevent the rupee from mattering internationally. The strengths and the weaknesses are the *same fact*, viewed from two directions.

This means the strategic question for India is not "how do we get the strengths without the weaknesses?" There is no such option. It is: *at what pace, and in what order, do we trade protection for reach — and how much protection are we willing to give up?*

Any Indian who tells you the answer is obvious in either direction has not understood the question.

PART VIII

Can the Monopoly Be Broken?

A checklist of what would actually have to happen, four scenarios with probabilities, and a verdict that will satisfy neither the optimists nor the doom merchants.

CHAPTER FORTY-TWO

What Would Actually Have to Happen

Nine conditions. Not one of them is currently met. Some are moving; most are not; two are moving in the dollar's favour.

Table 42.1 — The nine conditions for displacing the dollar

#	Condition	Status in 2026	Direction
1	A challenger with a bond market of comparable depth and liquidity	None. Eurozone fragmented; China closed; Japan too small	Static
2	A challenger with a fully open capital account	Euro and yen yes; yuan no; rupee no	Static
3	A challenger with independent courts and enforceable property rights	Euro and yen yes; yuan no	Static or worsening for the yuan
4	A challenger willing to run persistent deficits to supply the world	**Nobody.** Eurozone, China and Japan all run surpluses	Static — and this is the hardest one
5	Commodities priced outside the dollar at scale	~10–20% of crude, driven mainly by sanctions	**Moving**
6	Payment infrastructure independent of dollar clearing	CIPS, mBridge, BRICS Pay, UPI links all operational and growing	**Moving fastest**
7	Central banks materially reducing dollar reserve holdings	57.1% and it *rose* in 2026 Q1. Gold is the real diversification	Slow drift, partly reversing
8	A major loss of confidence in US fiscal or institutional stability	Debt at ~124% of GDP; all three agencies have downgraded; interest costs exceed defence spending	**Worsening for the US**
9	Collective action — enough countries moving simultaneously to overcome the network effect	No coordination. India, China, Brazil and the Gulf have divergent interests	Static; arguably worsening

IN SIMPLE WORDS — THE COORDINATION PROBLEM

Imagine a hundred people in a crowded hall, and everyone agrees the hall is too hot and they should all move to the room next door. But the first person to leave arrives in an empty room with nobody to talk to. Everyone waits for everyone else. Nobody moves.

That is condition 9, and it is the real reason the dollar persists. It is not that countries like the arrangement. It is that **the first mover pays a cost and the last mover pays nothing**, so rational actors wait. Only a shock large enough to make staying more expensive than leaving breaks this — which is exactly what sanctions do, one country at a time, which is why the erosion is happening at the sanctioned edges and nowhere else.

THE UNCOMFORTABLE PART — THE REAL RISK IS AMERICAN, NOT FOREIGN

Read down the "direction" column again. Seven of the nine conditions are static or barely moving. Two are moving meaningfully: payment infrastructure (condition 6) and US fiscal credibility (condition 8).

Condition 8 is the one that matters most, and it is entirely within American control.

The dollar's position has survived every external challenge for eighty years. It is unlikely to be displaced by a competitor, because there is no competitor that meets conditions 1 through 4. What could displace it is **American self-harm**: debt dynamics that eventually require inflation, a genuine default episode from a debt ceiling standoff, sustained political interference with the Federal Reserve, or the use of sanctions so broadly that even allies build alternatives.

> Every serious historian of reserve currencies makes some version of this point. Sterling was not defeated by the dollar. Sterling was destroyed by two wars, three devaluations, and Suez — and the dollar was simply there to take over. *The question for the 2030s is not whether a challenger emerges. It is whether the incumbent damages itself, and whether anything is ready when it does.*

CHAPTER FORTY-THREE

Four Scenarios to 2050

With probabilities attached, because a forecast without a probability is entertainment.

Figure 12 Four futures for the dollar, 2026–2050

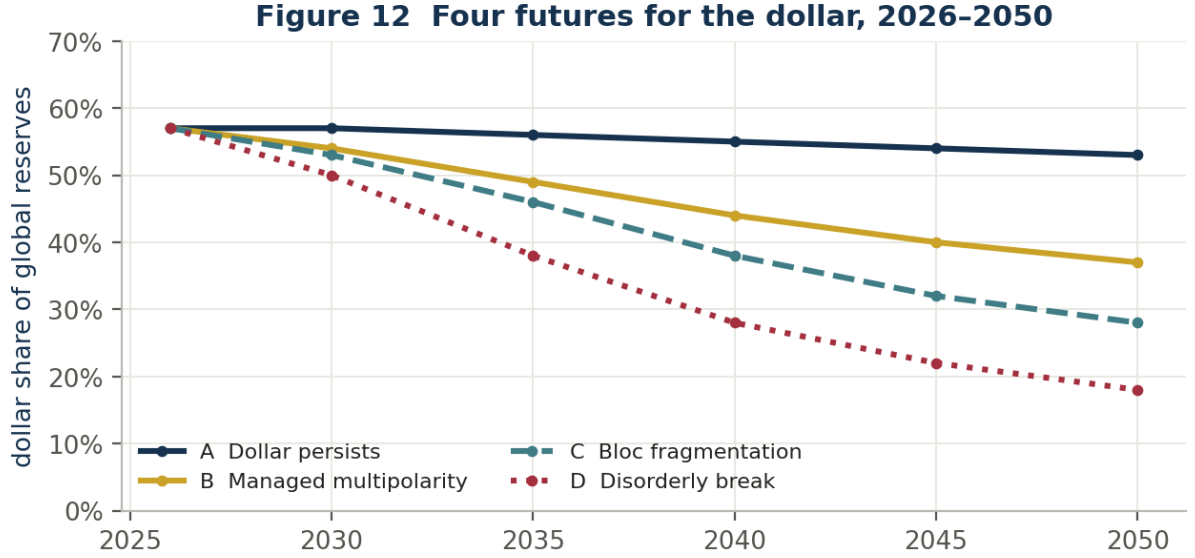

Figure 12. Dollar share of global reserves under four scenarios. Note that even the most disruptive case leaves the dollar as the largest single reserve currency in 2050 — the difference is between dominance and primacy. Author's projections.

Scenario A — The dollar persists (30%)

What happens: The US gets its fiscal position under control through some combination of growth, modest inflation and eventual political compromise. Its technology and energy advantages compound. China's demographic and property problems bind. The euro remains structurally incomplete. The dollar's reserve share stabilises in the low-to-mid 50s.

Signals to watch: US primary deficit narrowing; AI-driven productivity gains showing up in US output; Chinese growth settling below 4 per cent; no further major expansion of sanctions.

What it means for India: Continue the current strategy. Optionality is cheap insurance; the premium is affordable and the policy is unchanged.

Scenario B — Managed multipolarity (40% — most likely)

What happens: The dollar remains the largest currency but its share falls to roughly 35–40 per cent of reserves by 2050. The euro holds around 20 per cent. The yuan rises to perhaps 8–12 per cent, dominant in a China-facing trading bloc. Gold rises to 20–25 per cent of reserves. A cluster of second-tier currencies — including the rupee — occupies the remainder. Multiple payment systems coexist and interoperate, mostly peacefully. Commodities are priced in several currencies depending on the corridor.

Why this is most likely: It is the extrapolation of what is already happening. The dollar's share has fallen 14 points in 26 years without a crisis; continue that trend, add the sanctions-driven acceleration and the CBDC infrastructure being built now, and this is where you arrive.

What it means for India: This is the scenario India should plan for and the one Chapter 40's programme is designed for. India's role as an intermediary between blocs becomes genuinely valuable, and rupee regionalisation becomes achievable.

Scenario C — Bloc fragmentation (20%)

What happens: A serious geopolitical rupture — a Taiwan crisis, a major escalation in sanctions, or a trade war that breaks the WTO framework entirely — splits the world financial system into two or three largely separate zones. A dollar zone (North America, Europe, Japan, Korea, Australia), a yuan zone (China, Russia, Central Asia, parts of Africa and Southeast Asia), and a non-aligned zone that trades with both. Cross-bloc transactions become expensive, slow and politically fraught.

What it means for India: Simultaneously the best and worst outcome. India is the largest and most credible member of the non-aligned zone, which is enormously valuable. But India would face relentless pressure to choose, its energy supply lines would be exposed, and its services exports to Western clients and its manufacturing inputs from China would be on opposite sides of the divide.

Scenario D — Disorderly break (10%)

What happens: A US fiscal or institutional crisis — a technical default, sustained political capture of the Federal Reserve, or an inflation episode that policymakers cannot or will not contain — triggers a rapid loss of confidence. Reserve managers move faster than anyone modelled. Because no adequate alternative exists, the result is not a smooth handover but a scramble into gold, commodities and multiple currencies, with severe volatility.

Why the probability is low but not negligible: the mechanism requires American political failure of a specific and extreme kind. But the debt ceiling has already been taken to the edge repeatedly, all three rating agencies have now downgraded, and interest costs now exceed defence spending. These are not trivial signals.

What it means for India: Very bad in the short run — India holds $703 billion of mostly dollar assets and would take large losses, its trade would seize, and capital would flee emerging markets. This is the strongest argument for gold accumulation and for building alternative settlement rails before they are needed rather than during a crisis.

Table 43.1 — Scenario summary

Scenario	Probability	USD reserve share, 2050	Key driver	India's position
A — Dollar persists	30%	~53%	US fiscal repair + tech advantage	Unchanged; keep hedging cheaply
B — Managed multipolarity	**40%**	~37%	Continuation of current trends	**Best planning assumption**
C — Bloc fragmentation	20%	~28%	Geopolitical rupture	High value as intermediary; high pressure to choose
D — Disorderly break	10%	~18%	US self-inflicted crisis	Severe short-term damage; gold is the hedge

CHAPTER FORTY-FOUR

The Verdict

Ten conclusions from five months of work, stated as plainly as I can manage.

1. Money is trust with a settlement mechanism attached. It began as debt written on clay, became metal, became paper, and became numbers in a database. What has never changed is that its value comes from the confident expectation that other people will accept it. Every technical question in this report reduces to that.

2. The dollar's dominance is a network effect, not a conspiracy. Nobody voted for it. It emerged from Britain's collapse, America's 1944 position, the petrodollar arrangement, the offshore eurodollar market, and eighty years of everyone individually doing the sensible thing. That makes it far more durable than a designed system would be, because there is no single point to attack.

3. America's advantages are real, specific, and hard to replicate. Seven pillars. No challenger has more than five. The two that matter most — a $29 trillion unified safe-asset market and an independent judiciary — are exactly the two that the leading challenger cannot build without changing what it is.

4. Everyone else failed for different but instructive reasons. Sterling was destroyed by war and devaluation. The euro lacks a treasury and a safe asset. The yen's issuer ran surpluses and did not want the role. The yuan is walled in by capital controls and the absence of independent courts. The pattern across all four: *economic size is necessary and nowhere near sufficient*.

5. The system imposes real costs on countries like India, and they are quantifiable. Roughly $703 billion held in low-yielding reserves as insurance against a system India does not control. Interest rates influenced by decisions taken in Washington by people legally forbidden from considering India. Oil, chips and aircraft all requiring dollars India must first earn. This is not grievance; it is arithmetic, and it is why the subject deserves serious attention rather than slogans.

6. The dollar is eroding at the edges and secure at the centre. Reserve share down from 71 per cent to 57 per cent since 2000 — but it *rose* in the most recent quarter. Payments at 50 per cent but trade finance at 81 per cent. The erosion is real, measurable and slow, and it is going into gold and a scatter of small currencies, not into a challenger.

7. The most successful de-dollarisation in progress is gold, and almost nobody frames it that way. Central banks have bought over 1,000 tonnes a year every year since 2022, more than double the previous decade's rate. Gold is nobody's liability and cannot be frozen. That is the entire proposition, and it is working.

8. The greatest risk to the dollar is American, not foreign. Debt at 124 per cent of GDP, interest costs above defence spending, all three rating agencies having downgraded, and repeated brinkmanship over the debt ceiling. Sterling was not beaten by a rival; it was destroyed by its own issuer's circumstances. History suggests the same is the likeliest end state here.

9. India's realistic objective is optionality, not overthrow. Deepen the bond market, export the payment rails, settle regionally in rupees, accumulate gold, sequence capital account opening carefully over a decade, and fix energy dependence, manufacturing and R&D at home. A rupee at 1–2 per cent of global reserves and 15–25 per cent of India's own trade by 2040 would be a historic achievement. Anyone promising more than that is selling something.

10. The domestic work matters more than the monetary strategy. This is the conclusion I did not expect when I started. Every reserve currency in history — the Dutch guilder, the pound, the dollar — became one *after* its issuer became the world's leading producer, financier and technological power. The currency followed the economy, never the reverse. India's path to monetary significance runs through manufacturing, energy independence, research spending, female labour force participation and contract enforcement. The rupee will matter internationally when India matters economically to a degree it does not yet. There is no shortcut, and looking for one is the most common error in this entire field.

The dollar will not be dethroned. It will be diluted — slowly, unevenly, and mostly by America's own hand. The countries that prepare for a diluted dollar rather than a dead one will be the ones that benefit.

— L.S., August 2026

REFERENCE

Glossary, Timeline and Data

Eighty terms in plain English, a master timeline from the first debt tablets to 2026, the key data tables in one place, and the sources.

REFERENCE

Glossary of Eighty Terms

Every technical term used in this report, defined in ordinary English. Terms are grouped so that related ideas sit together rather than being scattered alphabetically.

The basics

Money
Anything widely accepted in payment. Its value comes from other people accepting it, not from what it is made of.

Fiat money
Money with no commodity backing, valuable because the state says so and demands it in taxes. Every currency today.

Commodity money
Money that is a valuable good in itself — gold, silver, salt, cattle.

Legal tender
Money a creditor must legally accept in settlement of a debt.

Seigniorage
The profit from creating money — the gap between what money is worth and what it costs to make.

Double coincidence of wants
The barter problem: both parties must want what the other has, at the same time.

Gresham's Law
Bad money drives out good, when law forces both to be accepted at the same value. People spend the debased coin and hoard the good one.

Debasement
Reducing the precious metal content of a coin while keeping its face value.

Chartalism
The view that money has value because the state demands it in taxes.

Broad money (M3)
All money in an economy: cash plus bank deposits plus near-money.

Banking and credit

Fractional reserve banking
Banks hold only a fraction of deposits in reserve and lend the rest, creating new money in the process.

Money creation
When a bank makes a loan it types a deposit into existence. ~97% of money is created this way, not printed.

Reserves (bank)
Money commercial banks hold at the central bank. Only banks can hold these.

CRR
Cash Reserve Ratio — the share of deposits Indian banks must park with the RBI (4% in 2026).

SLR
Statutory Liquidity Ratio — the share of deposits Indian banks must hold in government securities (18%).

Capital requirement
Shareholders' own money a bank must hold against its loans. The real limit on bank lending.

Bank run
When enough depositors demand their money at once that a solvent bank fails. No bank can survive one unaided.

Deposit insurance
State guarantee of deposits up to a limit (₹5 lakh per depositor per bank in India).

Lender of last resort
The central bank lending to solvent banks in a panic, to stop the panic.

Balance sheet recession
When everyone repays debt at once and nobody borrows at any interest rate. Japan, 1990–2010.

Exchange rates and international money

Exchange rate
The price of one currency in terms of another.

Floating rate
Set by the market, with no central bank target.

Managed float
Market-determined, but with central bank intervention to reduce volatility. India's regime.

Peg
A rate fixed by policy against another currency.

Currency board

Every domestic unit issued must be backed by foreign currency. Hong Kong; Argentina 1991–2001.

Dollarisation
Using the US dollar instead of a domestic currency. Ecuador, Panama, El Salvador.

Devaluation
A deliberate policy reduction of a pegged rate. *Depreciation* is the same thing happening in a market.

Convertibility
Freedom to exchange a currency for others. *Current account* convertibility covers trade; *capital account* covers investment flows.

Capital controls
Restrictions on money crossing borders. India and China maintain them; the US and eurozone do not.

Reserve currency
A currency central banks hold as reserves and the world uses to settle trade.

Foreign exchange reserves
Foreign currency, gold and IMF assets a central bank holds. India: ~$703bn.

Import cover
How many months of imports reserves could pay for. India: ~10–11 months. In 1991: three weeks.

Impossible Trinity
You cannot have a fixed exchange rate, free capital movement and independent monetary policy at once. Pick two.

Triffin Dilemma
The issuer of the world's reserve currency must run deficits to supply it, which eventually undermines confidence in it.

Original sin
The inability of most countries to borrow abroad in their own currency.

Carry trade
Borrowing in a low-interest currency to invest in a high-interest one.

Eurodollar
A dollar deposit held at a bank outside the United States. Nothing to do with the euro.

Swap line
An agreement between central banks to lend each other currency in a crisis. The Fed has unlimited standing lines with only five central banks.

Sudden stop
When foreign capital inflows abruptly reverse. The mechanism of most emerging market crises.

SRVA
Special Rupee Vostro Account — lets a foreign bank hold rupees in India to settle trade. 156 exist across 30 countries.

Prices, inflation and measurement

Inflation
A sustained general rise in prices — equivalently, a fall in the value of money.

Deflation
Falling prices. Worse than mild inflation: people postpone purchases and debts get heavier.

Hyperinflation
Conventionally, inflation above 50% per month.

Stagflation
High inflation with stagnant growth. The 1970s.

CPI
Consumer Price Index — retail prices. The RBI's target measure; food is ~46% of India's basket.

WPI
Wholesale Price Index — producer-stage prices, excluding services.

Core inflation
Inflation excluding food and fuel, to show the underlying trend.

Real vs nominal
Nominal is the money figure; real is adjusted for inflation.

PPP
Purchasing Power Parity — adjusting for the fact that the same goods cost different amounts in different countries.

Balassa–Samuelson effect
Why poor countries are cheap: services cost less where manufacturing productivity is lower.

Tradables / non-tradables
Goods that can be shipped (one world price) versus services that cannot (local prices).

Real effective exchange rate
A currency's value against a trade-weighted basket, adjusted for inflation. The best single measure of competitiveness.

GDP deflator
An economy-wide price index, used to convert nominal GDP into real GDP.

MSP
Minimum Support Price — the Indian government's guaranteed procurement price for 23 crops.

Debt and institutions

Sovereign debt
Money borrowed by a national government.

External debt
Debt owed to foreigners. Dangerous when denominated in foreign currency.

Default
Failure to pay debt as contracted.

Restructuring
Renegotiating debt terms — lower interest, longer maturity, or a reduction in principal ("haircut").

Debt-to-GDP
Debt as a share of annual output. Widely used and a poor predictor of crisis on its own.

Current account
Trade in goods and services plus income and transfers. India runs a deficit of ~1–1.5% of GDP.

Balance of payments
The full record of a country's transactions with the world.

IMF
International Monetary Fund — lends foreign currency to countries in balance-of-payments crisis, with conditions.

World Bank
Long-term development project lending. Different institution, different job.

Conditionality
The policy changes a borrower must make to receive IMF money.

SDR
Special Drawing Right — the IMF's reserve asset, a basket of five currencies.

Paris Club
An informal group of mainly Western creditor governments that coordinates debt restructuring. China is not a member, which is why restructurings now take years.

BIS
Bank for International Settlements — the central bank for central banks, in Basel.

NIIP
Net International Investment Position — what a country owns abroad minus what foreigners own of it. The US is at about –$26tn.

Systems, policy and infrastructure

Gold standard
Currency convertible into a fixed weight of gold. Ended for most purposes in 1931–33, finally in 1971.

Bretton Woods
The 1944 system: dollar fixed to gold, other currencies fixed to the dollar. Ended 1971–73.

Nixon Shock
15 August 1971 — the closing of the gold window, creating the modern fiat era.

Petrodollar
The arrangement under which oil is priced in dollars and oil revenues are recycled into US assets.

Plaza Accord
The 1985 agreement to push the dollar down, mainly against the yen.

Exorbitant privilege
The benefits accruing to the issuer of the world's reserve currency.

Repo rate
The rate at which the RBI lends to banks. India's main policy lever.

Federal funds rate
The US equivalent. Effectively the world's benchmark interest rate.

Quantitative easing
A central bank creating money to buy bonds, lowering long-term interest rates.

Inflation targeting
A legal mandate to keep inflation near a stated number. India: 4% CPI, ±2%, since 2016.

MPC
Monetary Policy Committee — the six-member body that sets India's repo rate.

SWIFT
The global financial messaging network. It moves instructions, not money.

Correspondent banking
Banks holding accounts with each other to settle cross-border payments. The real chokepoint.

CIPS
China's Cross-Border Interbank Payment System. 1,791 participants; record RMB 920.5bn daily average in March 2026.

mBridge
A multi-CBDC settlement platform linking China, Hong Kong, Thailand, the UAE and Saudi Arabia. Over $55bn cumulative by early 2026.

CBDC
Central Bank Digital Currency — digital cash issued directly by a central bank. India's is the e₹.

Stablecoin
A crypto token pegged to a currency, over 95% of them to the US dollar. In practice, a dollar-extension technology.

UPI
Unified Payments Interface — India's real-time retail payment system, the largest in the world by volume.

Network effect
Something becoming more useful the more people use it. The core reason the dollar persists.

REFERENCE

Master Timeline

Nine thousand years of money in one sequence, with India's entries marked.

Table A1 — The complete chronology

Date	Event
c. 9000 BCE	Cattle and grain used as units of account in the Near East
c. 3300 BCE	Cuneiform writing invented in Uruk — for accounting. The first texts are receipts
c. 3000 BCE	The silver shekel defined in Mesopotamia; interest-bearing loans recorded
c. 2400–1600 BCE	At least 30 royal debt cancellations ("clean slates"). Sumerian *amargi* — the first written word for freedom — means debt release
c. 1750 BCE	Code of Hammurabi caps interest at 20% (silver) and 33% (barley)
c. 630–600 BCE	Lydia strikes the first coins, in electrum
c. 600–500 BCE	**India: punch-marked silver *karshapana* circulate across the Mahajanapadas**
c. 600–500 BCE	China: spade and knife money, later the round coin with a square hole
c. 300 BCE	**India: the *Arthashastra* describes a full state mint and coinage administration**
c. 27 BCE – 300 CE	Roman denarius debased from ~98% to ~5% silver; hyperinflation follows
301 CE	Diocletian's Edict on Maximum Prices — the first national price control programme. It fails
320–550 CE	**India: Gupta gold *dinaras***
c. 1023	China: the Song dynasty issues *jiaozi* — the world's first government paper money
1260	Kublai Khan makes paper money non-redeemable — the first true fiat currency
1329	**India: Muhammad bin Tughlaq issues token brass and copper coins at silver value. Forgery destroys the experiment**
1350s–1450	Yuan and Ming paper money collapse. China abandons paper for four centuries
1540–45	**India: Sher Shah Suri issues the silver *rupiya* — ancestor of the modern rupee**
1602–1609	Dutch East India Company; Bank of Amsterdam founded. The guilder becomes the first modern reserve currency
1661	Stockholms Banco issues Europe's first banknotes, and over-issues within three years
1694	Bank of England founded to lend £1.2m to the Crown, backed by parliamentary tax pledges
1717	Newton sets the gold price at £3 17s 10½d, putting Britain on a de facto gold standard
1716–20	John Law's paper money and Mississippi bubble collapse in France
1757–1858	**India: East India Company rule; land revenue used to finance Indian exports — the "Drain"**
1821	Britain formally adopts the gold standard
1835	**India: Coinage Act creates a single silver rupee across British India**
1871–1900	Germany, France, USA, Japan adopt gold. The classical gold standard era
1893–99	**India: mints closed to free silver; rupee fixed at 1s 4d under a gold exchange standard with reserves held in London**
1913	US Federal Reserve created. Keynes publishes *Indian Currency and Finance*
1914	Gold convertibility suspended at the outbreak of war

Date	Event
1923	German hyperinflation peaks: $1 = 4.2 trillion marks. Rentenmark introduced in November
1925–31	Britain returns to gold at the pre-war parity, then is forced off it
1929–33	Great Depression. World trade falls by two-thirds. Countries leave gold one by one
1935	**India: the Reserve Bank of India is established**
1944	**Bretton Woods.** Dollar fixed to gold at $35/oz; IMF and World Bank created. India attends as a founding member
1947	**India independent. Rupee at 3.3/USD. £1.3bn of sterling balances owed by Britain, largely unusable**
1947–49	Sterling convertibility fails within five weeks; devaluation to $2.80
1956	Suez. The US uses financial pressure to end the Anglo-French operation
1957–60s	The eurodollar market emerges in London
1959	Triffin testifies to Congress that Bretton Woods must fail
1965	De Gaulle denounces America's "exorbitant privilege" and converts dollars to gold
1966	**India devalues the rupee from 4.76 to 7.50 — politically catastrophic**
1969	IMF creates Special Drawing Rights
15 Aug 1971	**The Nixon Shock.** The gold window closes. The modern fiat era begins
1973	Major currencies float. Oil embargo; crude quadruples
1974	The US–Saudi petrodollar arrangement
1976	Britain takes an IMF loan — the symbolic end of sterling's era
1985	Plaza Accord. The yen doubles against the dollar in two years
1989–90	Japan's bubble peaks and bursts. Three lost decades begin
1991	**India's balance-of-payments crisis. Reserves fall to $1.2bn; 47 tonnes of gold pledged abroad; IMF loan; liberalisation begins**
1997–98	Asian financial crisis. Thailand, Korea, Indonesia. Emerging markets begin hoarding reserves
1999	The euro launches
2001	Argentina's currency board collapses; largest sovereign default to that date
2008–09	Global financial crisis. Fed swap lines exceed $580bn. Bitcoin's white paper is published
2010–12	Eurozone crisis. Greece contracts by ~25%. The euro's reserve share falls back to ~20%
2012	Iranian banks cut from SWIFT
2013	Taper tantrum. The rupee falls ~20% in four months. China launches the Belt and Road Initiative
2014	BNP Paribas fined $8.9bn by US authorities for dollar transactions legal in France
2015–16	China's devaluation triggers ~$1tn of outflows. CIPS launched. **India adopts formal inflation targeting (2016)**
2020	COVID. Fed swap lines exceed $440bn. Unprecedented monetary expansion worldwide
Feb 2022	**~$300bn of Russian central bank reserves frozen. The decisive event of the modern era**
Jul 2022	**India launches the Special Rupee Vostro Account mechanism**
2022–26	Central bank gold buying exceeds 1,000 tonnes every year — more than double the previous decade's rate
2023	Sri Lanka's IMF programme after its 2022 default. Fitch downgrades the US
Jun 2024	**Indian government bonds enter the JP Morgan GBI-EM index**

Date	Event
May 2025	Moody's downgrades the US to Aa1 — the last AAA rating gone
Early 2026	mBridge graduates from MVP; over $55bn cumulative. BRICS Pay operational
Feb 2026	**India's reserves hit an all-time high of $725.7bn**
2026 Q1	Dollar reserve share *rises* to 57.13%. Euro 20.03%. Renminbi 1.99%
Aug 2026	US federal debt at ~$39.9tn. This report is completed

REFERENCE

Appendix: Key Data Tables

The core numbers from this report in one place, for reference and for checking against future data releases.

Table A2 — The dollar's position, mid-2026

Metric	Dollar	Euro	Yen	Sterling	Renminbi
Share of global FX reserves (2026 Q1)	57.13%	20.03%	~5.8%	~4.6%	1.99%
Share of SWIFT payments (Jun 2026)	50.10%	21.88%	3.66%	6.71%	3.10%
Share of trade finance (Jun 2026)	81.16%	5.59%	~1.5%	~1.2%	8.00%
Share of international debt securities	~64%	~22%	~2%	~7%	~1.5%
On one side of FX trades (of 200%)	~88%	~31%	~17%	~13%	~7%

Table A3 — The dollar's reserve share over time

Year	USD share	Year	USD share
1947	~13% (sterling 87%)	2010	62%
1960	~60%	2015	66%
1973	~76%	2020	59%
1990	~50%	2024	57.8%
2000	71%	2025 Q4	56.42%
2008	64%	**2026 Q1**	**57.13%**

Note the 2026 Q1 increase. About half of it is a valuation effect from dollar appreciation rather than net purchases.

Table A4 — India at a glance, 2026

Indicator	Value	Note
Nominal GDP	~$4.3tn	4th largest (IMF); 6th on some other measures
PPP GDP	~$18.9tn	3rd largest
GDP growth	~6.5%	Fastest among large economies
Nominal GDP per capita	~$2,900	~140th in the world
PPP GDP per capita	~$13,000	vs ~$89,000 for the US
FX reserves	~$703bn	Peak $725.7bn, Feb 2026. 4th largest globally
Import cover	~10–11 months	3 weeks in 1991
Gold in reserves	>880 tonnes	100+ tonnes repatriated from London since 2022
External debt	~$745bn	Short-term (<1yr) ~$135bn
Public debt / GDP	~81%	~95% rupee-denominated and domestically held
Merchandise trade deficit	~$280–300bn	Crude, electronics, gold, coal
Services exports	~$390bn	Largest single strength

Indicator	Value	Note
Remittances	~$135bn	Largest recipient in the world
USD/INR	~95.2	3.3 in 1947
Manufacturing / GDP	15–17%	Target 25%; China ~27–30%
R&D / GDP	~0.65%	China 2.4%; US 3.5%
Female labour force participation	~33–37%	China ~60%
Foreign ownership of G-secs	3–5%	The binding constraint on internationalisation
Rupee share of SWIFT payments	<0.2%	Outside the top fifteen currencies
SRVAs	156	123 correspondent banks from 30 countries

Table A5 — List of figures

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13	India's external balance sheet, 2026	37

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Sources and Further Reading

Where the numbers came from, and what to read next.

Primary data sources

- **IMF COFER** (Currency Composition of Official Foreign Exchange Reserves), 2026 Q1 release — reserve currency shares. *data.imf.org*
- **SWIFT Global Currency Tracker** (formerly RMB Tracker), June and July 2026 — payment and trade finance shares. *swift.com*
- **US Treasury Fiscal Data** and **TIC data** — national debt totals and foreign holdings of Treasuries. *fiscaldata.treasury.gov*; *ticdata.treasury.gov*
- **Reserve Bank of India** — weekly statistical supplement, monthly bulletin, annual report; reserves, exchange rates, SRVA data
- **World Gold Council** — Central Bank Gold Reserves Survey 2026 and quarterly Gold Demand Trends
- **Bank for International Settlements** — Triennial Central Bank Survey; global liquidity indicators; locational banking statistics
- **IMF World Economic Outlook**, 2026 database — GDP nominal and PPP, per capita figures
- **Congressional Budget Office**, Budget and Economic Outlook 2026–2036
- **CIPS** official statistics and **chinadata.live** — Chinese payment system volumes
- **AidData**, William & Mary — Chinese overseas lending and rescue lending datasets
- **World Bank International Debt Statistics** and the International Comparison Program (PPP conversion factors)

Books worth reading, in order of accessibility

Niall Ferguson — *The Ascent of Money* (2008)
The best single introduction to financial history for a general reader. Start here.

Barry Eichengreen — *Exorbitant Privilege* (2011)
The definitive account of the dollar's rise and the mechanics of reserve currency status. The single most useful book for this report's subject.

Barry Eichengreen — *Globalizing Capital* (2019, 3rd ed.)
The international monetary system from the gold standard to the present. More technical but very clear.

David Graeber — *Debt: The First 5,000 Years* (2011)
The anthropological argument that credit preceded coinage. Contested by economists on several points and essential reading anyway.

Adam Tooze — *Crashed* (2018)
The 2008 crisis as a global dollar-system event, including the swap lines. Explains the modern architecture better than anything else.

Michael Pettis & Matthew Klein — *Trade Wars Are Class Wars* (2020)
Why surplus countries cause deficits elsewhere. The modern statement of Keynes's 1944 argument.

Perry Mehrling — *The New Lombard Street* (2010)
The hierarchy of money and the central bank's real function. Short and unusually clarifying.

Vijay Joshi — *India's Long Road* (2016)
The best analytical account of India's economic constraints since 1991.

Raghuram Rajan — *I Do What I Do* (2017)
An RBI governor on managing an emerging-market currency inside a dollar system, including the taper tantrum from the inside.

Deborah Brautigam — *Will Africa Feed China?* and associated China-Africa Research Initiative papers
The evidence-based counterweight to the debt-trap narrative.

Carmen Reinhart & Kenneth Rogoff — *This Time Is Different* (2009)
Eight centuries of financial crises. The empirical foundation for Chapter 34.

A note on the numbers in this report

Where sources disagree, I have said so in the text rather than picking one. Three specific cautions the reader should carry forward. **First**, India's nominal GDP ranking varies between 4th and 6th depending on the source, the exchange rate used and the date of estimate; I have given both. **Second**, US debt-to-GDP is reported anywhere between 100% and 134% depending on whether the measure is federal debt held by the public, gross federal debt, or general government debt including states; I have used the general government measure at ~124% and said so. **Third**, estimates of the colonial "Drain" from India vary by an order of magnitude between authors depending on assumptions about counterfactual reinvestment; I have described the mechanism, which is not disputed, rather than asserting a figure that is.

All figures are current to 8 August 2026 and will drift. The structural arguments should survive; the specific numbers will not.