

## Policy recommendation and conclusion

1. Sanctions and other coercive financial instruments should be applied selectively and strategically.

- There is a risk that for every additional sanction, a greater number of countries will be incentivized to build out parallel payment and financial systems to protect themselves. The overuse of sanctions, risks undermining the institutional credibility the Western financial system and currencies depends upon.

2. Structural reforms are often necessary.

- In Europe, a genuine Capital Markets Union (proposals for such are already underway) is needed to deepen the Euro's power and investment flows. Digitalisation is also necessary. There is a heavy reliance on American financial infrastructure. These reforms could allow the EURO to gain more global weight globally and be more independent from the United States. The best way to ensure economic stability within the eurozone is for the ECB not to structure its monetary policy too far outward and instead continue to deliver results within its own "territory".
- In a similar manner, the Yuan's importance can only grow under increased financial markets reform and liberalization, as there are still heavy restrictions in possessing and transacting with CNY.
- Payment infrastructures are evolving towards greater multipolarity and political sensitivity. There needs to be cooperation to combat systematic fragmentation as it risks increasing transaction costs and decreasing global connectivity, which could hinder overall trade between non-allied countries. Alternative means of payment such as cryptocurrencies or gold should push states to reconfigure their power (regulation, etc..) within decentralized systems.

Today, the global monetary system rests mainly on a singular currency, thanks to the Dollar's credibility, trustworthiness and depth of the financial system underpinning it. However, the global payments system is evolving towards a multipolar system, due to emerging powers and political disputes, such as the Ukraine-Russia conflict. The USD's dominance will not be questioned in the short-term, however, as time passes, the weight of the dollar in global finance could degrade in the coming decades. Some important players such as China are already trying to carve out more space, and other potential rivals may follow - the EU being one.

Gold, despite being a thousand year old commodity that has been cherished by Egypt's pharaohs, is still an important asset to protect a currency's stability. Cryptocurrency, which has had a strong acceptance in the last few years, is not yet playing a crucial role in global finance (with some very niche carveouts).

A currency being simply an intermediary for transactions is still one of the fundamentals of a country's economy. Distortions in it over a long period of time, such as in the case of the Yen in Japan, can harm a country's economic growth potential.

The architecture of global finance is undergoing a slow but structural transformation, and the decisions taken by major powers over the coming decades on sanctions, trade, financial markets, liberalization, digital infrastructure, and monetary coordination will determine whether this transition leads to a more balanced and resilient system, or to one defined by fragmentation and strategic rivalry.

Yours Sincerely,

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