

Money & Development from a PK perspective: The Concept of Currency Hierarchy

Heike Joebges, Aug. 2026
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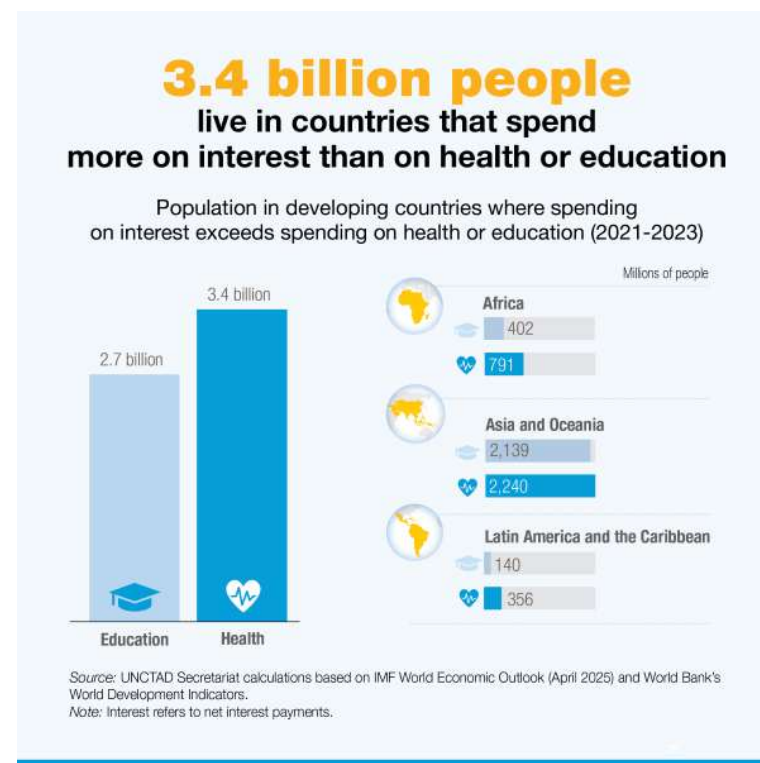
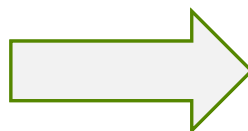
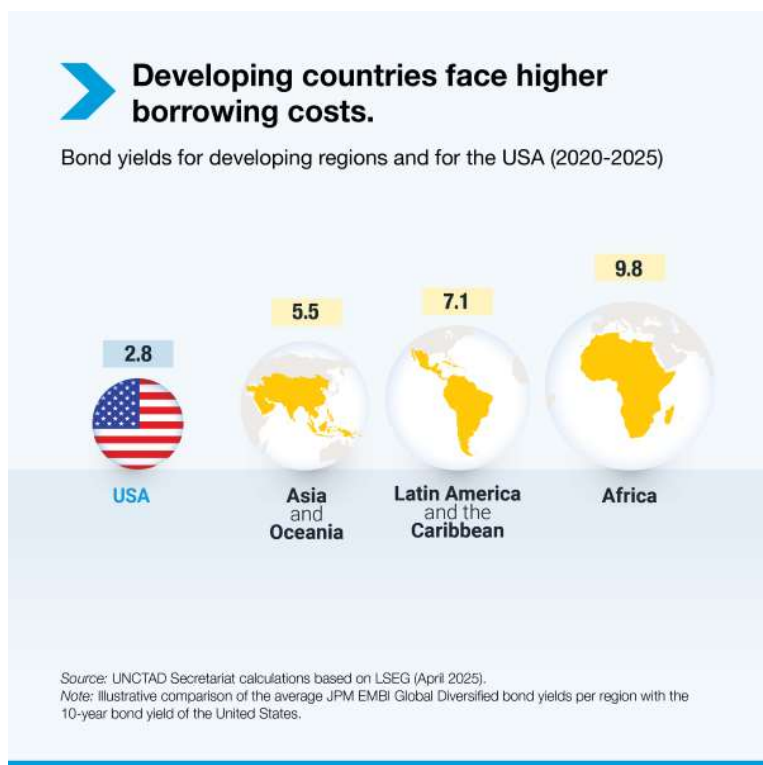
Slides based on: de Paula, L. F., Fritz, B., & Prates, D. M. (2026): Currency Hierarchy and Financial Globalisation: Implications for Peripheral Economies. Edward Elgar Publishing (chs. 1–4)

**Hochschule für Technik
und Wirtschaft Berlin**

University of Applied Sciences

Motivation: Financial conditions vary and have real consequences

(UNCTAD 2025 report: A world of debt)



Note: Asia without Israel, Japan, & the Republic of Korea; Oceania without Australia & New Zealand; Source: UNCTAD 2025: A world of debt, Report, <https://unctad.org/publication/world-of-debt>

Currency Hierarchy

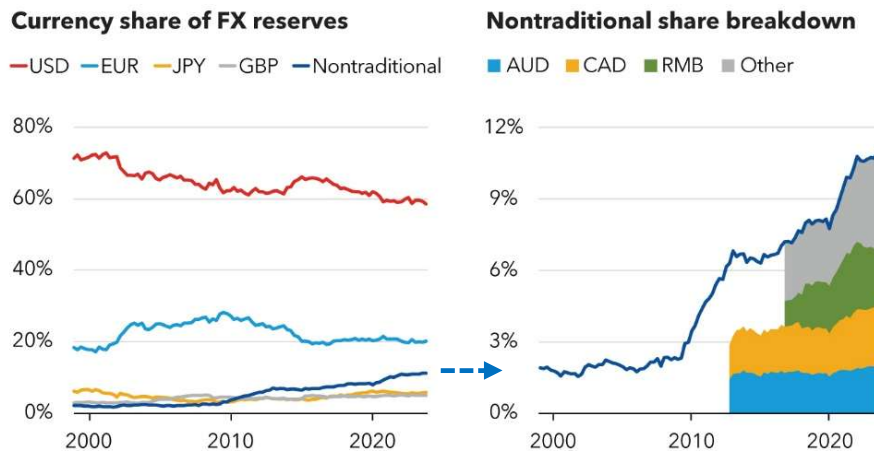
1	Asymmetries in the international monetary system
2	Paradigmatic embedding
3	The concept of Currency Hierarchy
4	Policy implications
5	Frontier Markets & Financial Hierachy
6	Conclusions
7	Applications
8	

Asymmetries in the international monetary system (IMS):

Asymmetries in official foreign reserves

Nontraditional currencies rise

Falling share of “big four” currencies mirrored by increasing holdings of nontraditional reserve currencies.



Sources: IMF COFER; Arslanalp, Eichengreen, and Simpson-Bell (2022, updated).
Note: The “big four” currencies are the US dollar, euro, Japanese yen, and British pound.
Nontraditional are all other currencies. AUD = Australian dollar. CAD = Canadian dollar.
RMB = Chinese renminbi. China became a COFER reporter between 2015 and 2018.

IMF

- **USD** share is declining, yet, still **dominating**.
- **Chinese RMB** only **marginally** relevant.
- FT (2026, Aug. 13): „The renminbi's hardest mile is only now beginning. Turning currency into an asset the world wants to hold will be hard.”

Fig. source: Arslanalp et al. (2024).

Asymmetries in the international monetary system (IMS)

Foreign Exchange (FX) Market Turnover

(% of transactions, sum = **200%**)

Currency	2001	2010	2022
USD	89.9	84.9	88.4
EUR	37.9	39.1	30.5
JPY	23.5	19.0	16.7
GBP	13.0	12.9	12.9
RMB	–	0.9	7.0
Other currencies*	35.7	43.2	44.5
Total	200	200	200

*AUD, CAD, CHF, INR, MXN, ZAR, BRL, RUB and others

USD share is declining in FX turnover, yet, still dominating transactions; RMB use is rising sharply

Official Foreign Exchange (FX) Reserves

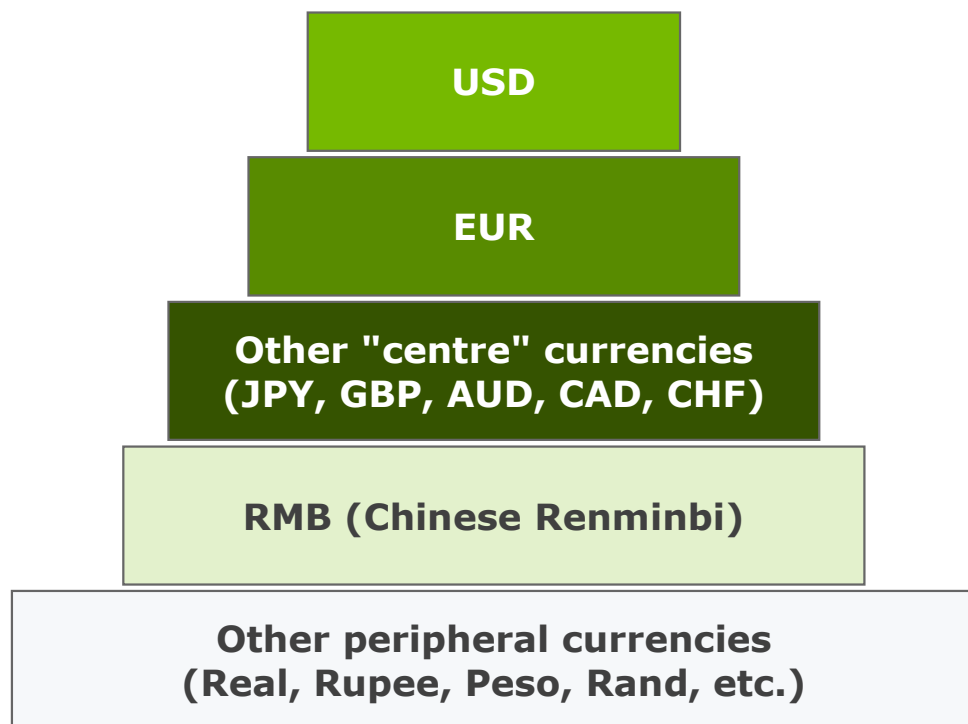
(% of total, sum = **100%**)

Currency	2016	2020	2024
USD	65.5	61.9	58.9
EUR	19.6	20.1	19.7
JPY	3.7	5.9	5.7
GBP	4.7	4.4	4.9
RMB	0.0	2.0	2.1
Other currencies*	6.5	5.7	8.7
Total	100	100	100

USD share is declining in central bank reserves, yet, still dominating reserves. RMB still only marginally relevant.

Table sources: de Paula et al. (2026: 13-14, fig. 1.1 and 1.2); data originally based on BIS Triennial Survey 2022 for fig. on LHS and IMF (2024) for fig. on RHS

Asymmetries in the IMS: Evidence of a Currency Hierarchy



- **At the top:** the fiduciary, flexible US dollar
- **followed by**
 - the euro and other “centre” currencies
 - The Chinese renminbi (RMB) is now close to “centre” currencies
- **At the bottom:** peripheral currencies – lowest liquidity premium
- **Two rival explanations of this ordering:**
 - *Cohen’s (1998, 2015)* demand-driven ‘natural selection’ among competing currencies vs.
 - the power-based, Keynesian–structuralist view stressing state power and money’s unit-of-account function

Source: Fig. replicated, based on de Paula et al. (2026: 12, Fig. 1.1).

Asymmetries in the IMS:

Further empirical evidence

Established evidence on USD dominance:

- „**Exorbitant privilege**“ of the **USD** (*Valéry Giscard d'Estaing in 1960s*): global safe asset, low yields
- Stable **concentration of international financial transactions in USD** (*Cohen/Benney 2014, IMF...*)
- Dominance of **US dollar invoicing** of international trade (*e.g. Gopinath 2015, Boz et al. 2022, 2025, Goldberg/Tille 2008*)
- **Global financial cycle** (*e.g. Miranda-Agrippino/Rey 2022, Rey 2018*): capital flows react to centre country's policy; capital mobility impedes independent monetary policy for other countries (dilemma, not trilemma)
- **Estimates of risk premia** of non-USD assets

Other (heterodox) research:

- **International monetary hierarchy of the offshore US dollar system** (*Murau et al. 2021, 2022*): IPE research, analysing access to US dollar liquidity from the FED to other central banks in times of emergency
 1. direct swap lines
 2. FED's repo facility for FIMAs*
 3. IMF drawing rights
- **Asymmetries in the global financial safety net** (= in access to Swap agreements) (*e.g. Muehlich et al. 2022*), PK research
- **Plus older research on**
 - higher vulnerability to financial crises, more unstable capital flows, devaluation pressure,
 - Concentration of investment banks, Rating Agencies & other relevant financial institutions in the Global North (esp. US)
 - ...



*Foreign & International monetary authorities

Currency Hierarchy

1	Asymmetries in the international monetary system
2	Paradigmatic embedding
3	The concept of Currency Hierarchy
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5	Frontier Markets & Financial Hierachy
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Explanations for asymmetries in the international monetary system

- **Cohen's (1998, 2015) demand-driven 'natural selection' among competing currencies**
 - USD "indispensability" result of higher network externalities & economies of scale;
 - the only currency backed by all the economic and political resources that make a currency powerful;
 - concept of a **monetary pyramid** according to currency internationalisation
- **IPE research (Helleiner 1994, Strange 1988): state power relations** explain asymmetric use of currencies
- **PK-related approaches:**
 - **Currency hierarchy**
 - **International financial subordination**
- Economic history approaches – not covered here

Criteria for currency internationalization (Cohen/Benney 2013)

Function	Private	Official
Medium of exchange	Vehicle currency (FX trade); trade settlement currency	Intervention currency
Unit of account	Trade invoicing currency	Exchange rate anchor
Store of value	Investment currency	Reserve currency

Alternative approach by Carneiro (1999) differentiates between reserve, convertible and non-convertible currencies, also drawing on currencies fulfilling the functions of money internationally.

Table source: De Paula et al. (2026: 15)

Currency Hierarchy

Theoretical Foundations: Keynesian Roots & LA Structuralism

Keynesian Roots

- **Keynes ([1930] 2013)**: hierarchical IMS and the differing monetary autonomy of debtor (England) and creditor countries; Bretton Woods proposal for an International Clearing Union (ICU) with a supranational settlement currency ('bancor')
- **German Monetary Keynesians**
Riese ([1986] 2004): "myth of resource transfer": foreign capital imports appreciate the domestic currency, weaken export competitiveness; debt-led growth risks ending in debt crises; *Riese ([1993] 2004)*: liquidity-premium differential between currencies as a basis of a market-based theory of development
- **Brazil's Campinas School** (*Belluzzo, 1995; Carneiro, 1999*): "financial power" determines hierarchy among currencies, producing asymmetric balance-of-payments adjustment between creditor and debtor countries

Note: PK-Approaches by *Davidson (1992)* & *Dow (1999)* not cited as sources. Authors focus on the role of international liquidity preference & resulting currency flows outside the core.

Latin American Structuralism

- **ECLAC/Prebisch (1950)**: the centre-periphery metaphor – an international division of labour between commodity and manufactured-goods producers widens the gap between centre and periphery; the periphery must adjust to externally generated shocks
- **Ocampo (2001)** transposes centre-periphery from trade to finance: centre economies are 'business cycle makers', peripheral economies 'business cycle takers'

Currency Hierarchy (CH)

Synthesis:

- CH combines a Keynesian tradition with a Latin American structuralist centre–periphery tradition
- Ch is shaped both by the hierarchy among currencies and by centre–periphery asymmetry, reducing peripheral economies' policy space relative to the centre.

(Andrade & Prates, 2013; Paula et al., 2017; Fritz et al., 2018, de Paula et al. 2026, Herr/ Nettekoven 2022)

Concept

- **hierarchical structure** of the international monetary system (IMS)
- Persistent feature of IMS, since sterling–gold–standard
- **IMS is organised around a key currency that best performs the 3 functions of money internationally:**
 - medium of exchange, unit of account, and store of value
- Other currencies do not or only partially fulfil these functions
- Central argument: **monetary and financial asymmetries between centre and periphery structurally constrain the policy space of peripheral economies**

Closely related PK (related) approach: International financial subordination

Focus: subordinated integration of emerging market economies (EMEs) into the IMS

- ⇒ “(Subordinate) financialized capitalism” (Bonizzi et al. 2022)
- ⇒ “Subordinated financial integration” (Kaltenbrunner/Paincera 2017)
- ⇒ “Financial subordination” (Kvangraven et al. 2020)

Based on Kaltenbrunner (2015), Bonizzi (2017), Ramos (2019), “Minskyan strand” (Alami et al. 2023: 1368)

Similarities to currency hierarchy :

- **focus on currencies at the bottom** of the hierarchy and their restricted policy space
- Focus: “...why the structural power of finance takes a particularly violent form of expression in developing and emerging market economies” (Alami et al. 2023, abstract)
- **Synthesis** of three heterodox traditions – **dependency theory, post-Keynesian economics** and **Marxism**

Differences to currency hierarchy (Alami et al. 2023):

- **Umbrella approach**, less restricted to economics
- **Synthesis** of **three** heterodox traditions – dependency theory, post-Keynesian economics **and Marxism**
- CH concept **plus historical and power-relations dimension** (including colonial ties)

Critique on CH (Alami et al. 2023: 1373-1374):

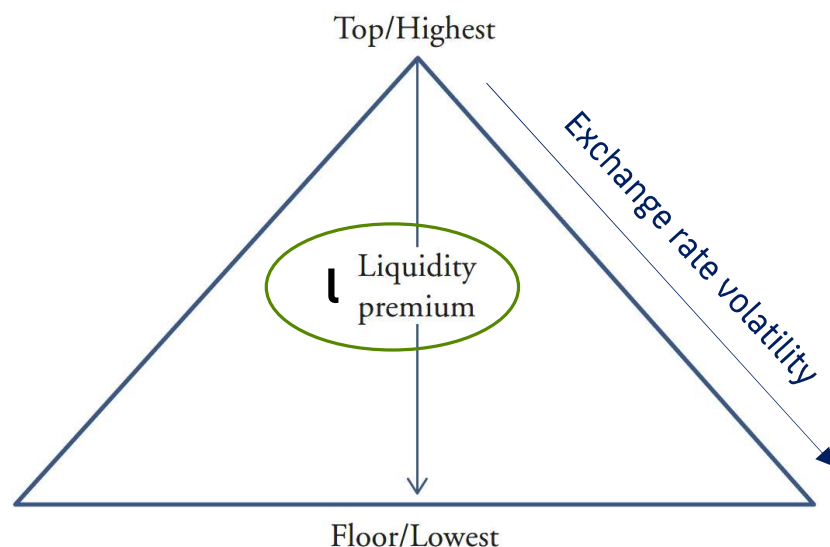
- “... portray[s] IFS as a ... technical question, thereby fetishizing the currency hierarchy ... in ahistorical terms...”
- “Power relations ... slip into the background.”
- “obfuscating transnational class dynamics”

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Currency Hierarchy (CH)

Liquidity premium as one element of the monetary return of a currency (= asset)



Currency pyramid:

- **At the top:** key currency (USD), highest liquidity premium, lowest exchange rate (XR) volatility
- **Intermediate positions:** currencies issued by centre countries (adv. economies), liquid, but lower liquidity premia
- **At the bottom:** currencies with lowest liquidity premia, highest XR volatility - issued by peripheral countries (emerging market and developing countries)

A monetary asset's own rate of return r_a :

$$r_a = a + q - c + \textcircled{l}$$

based on Keynes (1936: ch. 17)

With

a = expected appreciation,

q = quasi-rent/yield,

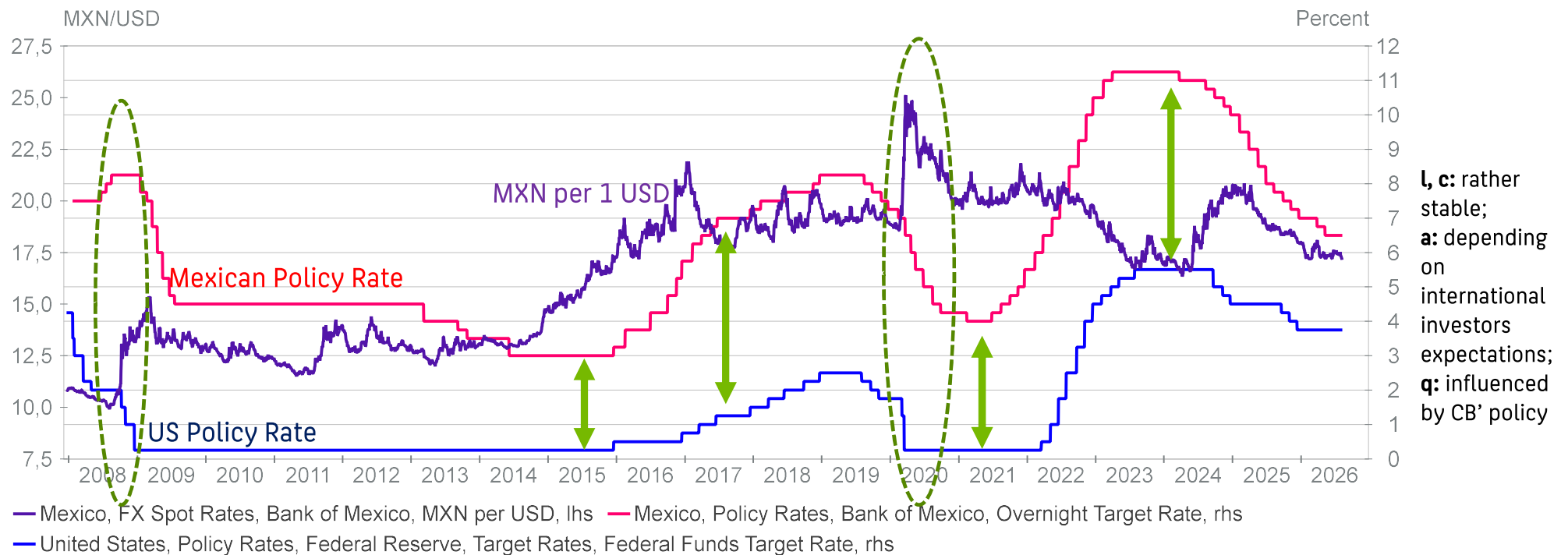
c = carrying cost, depending on financial openness,

l = **liquidity premium** for an asset in a given currency, relevance depends on investors' liquidity preferences

$a+q-l$ = monetary return of the asset

Source of figure: Prates et al. (2018: 211)

Consequences of a lower own rate of return ($r_a = a + q - c + l$) than the US dollar's: Investors need to be compensated for holding Mexican Pesos (MXN)



MACROBOND

Fig. source: Macrobond, Central banks' interest rates in % (RHS), exchange rate: MXN per 1 USD (LHS)

Consequences of a lower own rate of return ($r_a = a + q - c + l$) than the US dollar's: Investors need to be compensated – especially in times of crises...

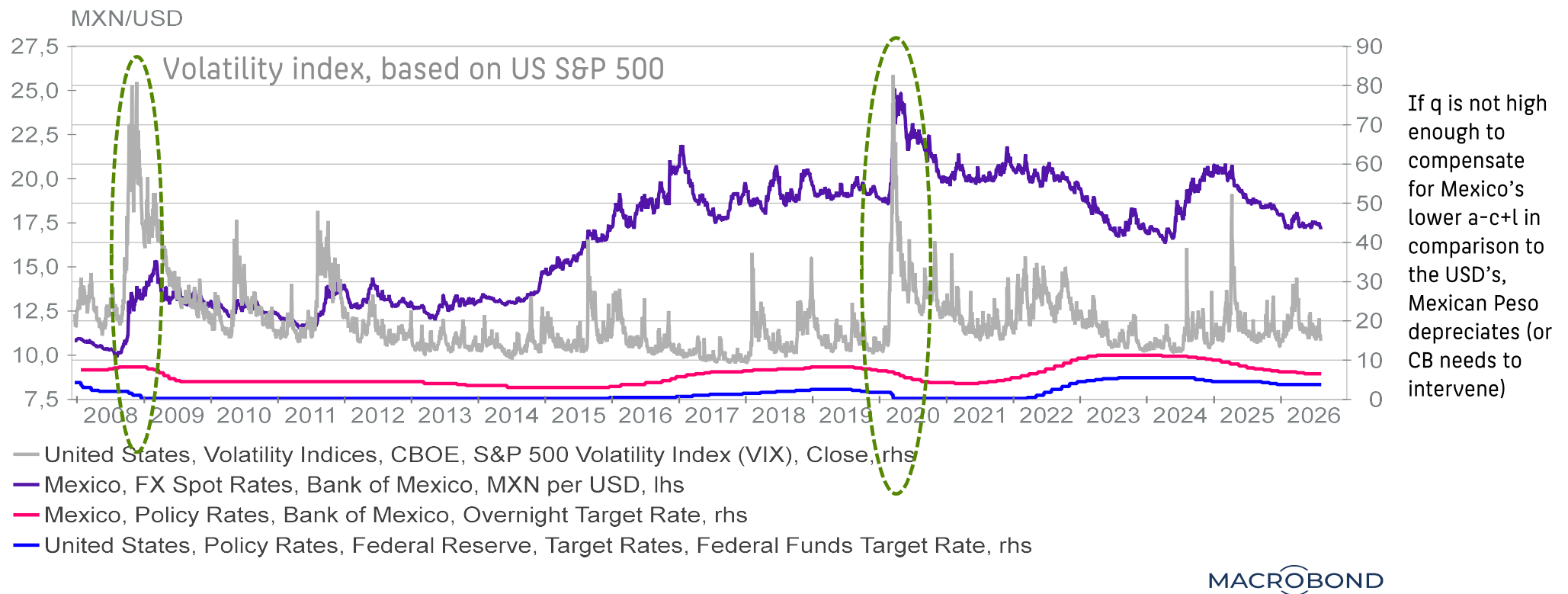
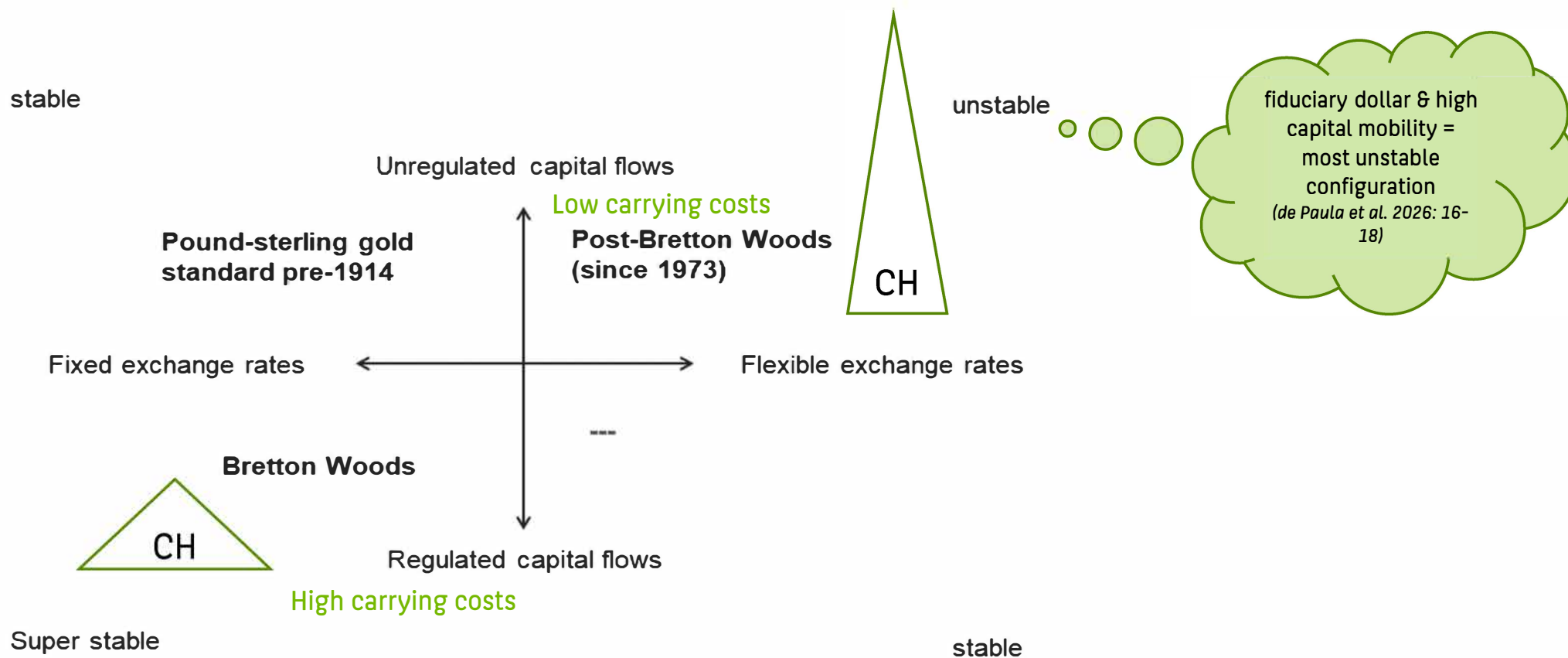


Fig. source: Macrobond, Central banks' interest rates in % (RHS), exchange rate: MXN per 1 USD (LHS)

The global monetary regime influences liquidity premia l differences & the carrying costs c



Source of figure on LHS: de Paula et al. (2026: 17)

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Policy implications:

Tendency for boom-bust cycles (Fritz et al. 2018, de Paula et al. 2026, ch. 2)

- **Minsky** (1986): economic units tend to shift from robustness to financial fragility over the business cycle
 - “**stability ... is destabilizing**” (Minsky 1982: 101)
- **Boom**: falling liquidity preference among global investors raises demand for EME securities via differences in interest rates/ expected appreciations, reinforcing currency appreciation and capital inflows
- **Bust**: monetary tightening in the centre or a rise in liquidity preferences by investors triggers sudden outflows, asset-price deflation and abrupt currency depreciation in periphery: “**flight to quality**” (Ramos, 2019)
- EME-specific **amplifiers**: higher exchange-rate volatility due to the subordinate CH position & the outsized influence of a small number of money managers



Reminder:

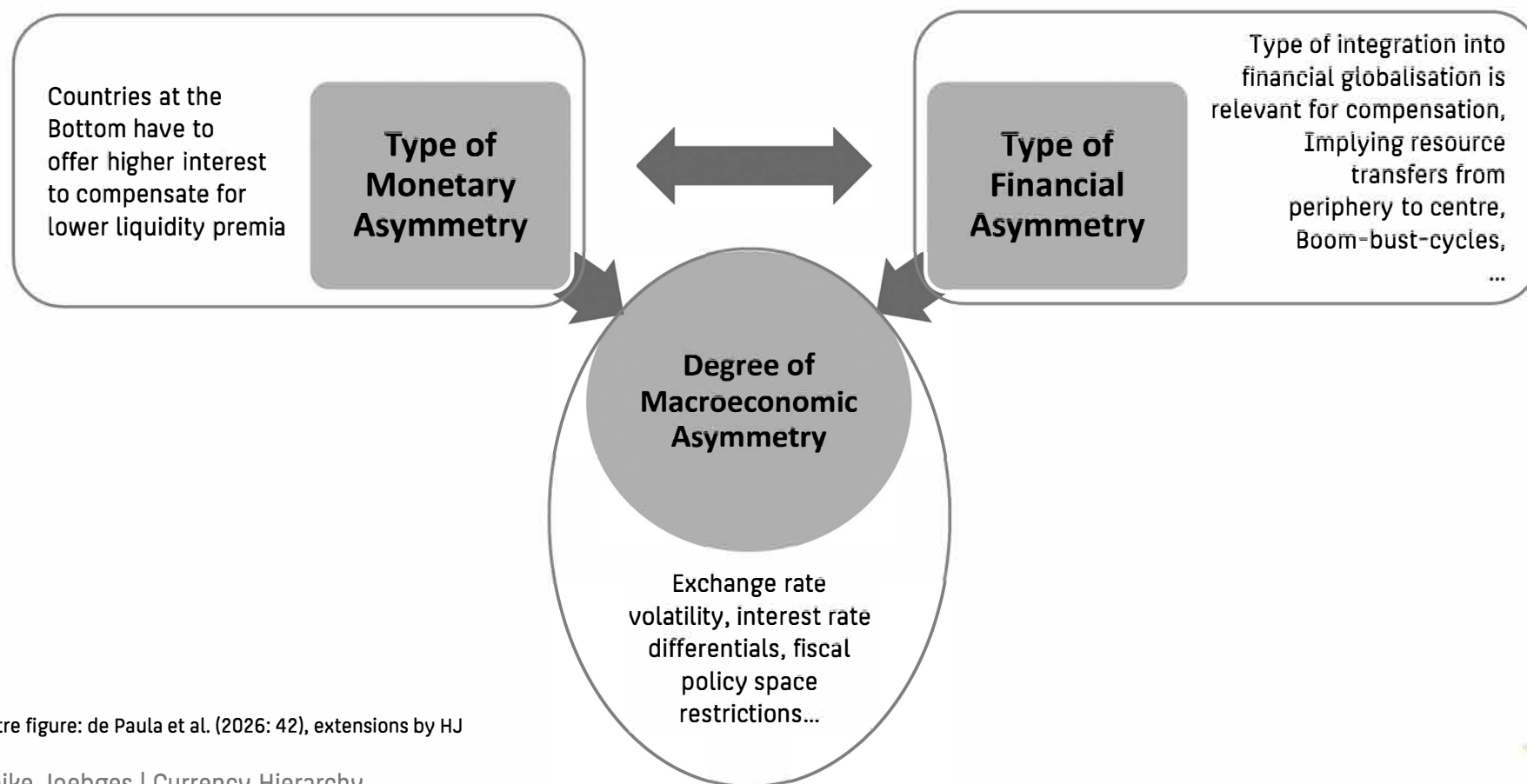
- **liquidity premium** is structural & rigid in the short run;
- **liquidity preference**, by contrast, shifts with investors' expectations over the cycle

Policy implication:

Constrained monetary and fiscal policy in EMEs (Fritz et al. 2018, de Paula et al. 2026, ch. 2)

- Peripheral countries must offer a higher monetary return $a+q-c$ to compensate for the lower liquidity premium l of their currencies
- **“Fear of floating”** (Calvo & Reinhart, 2002): central banks of EME intervene heavily to stabilize exchange rates, despite de jure floats, via reserve accumulation and (since 2008) capital account regulation
- More volatile capital flows (due to low liquidity premia) that react to centre-country monetary policy, deepen the **loss of monetary autonomy**
- Weak transmission channels (shallow credit and capital markets, high exchange-rate pass-through) push EMEs toward **tighter, more constrained monetary policy**
- **Inflation targeting regimes** are harder to run in EMEs: higher pass-through, harder forecasting, ‘original sin’, and credibility problems (Eichengreen, 2002; Mishkin, 2008)
- Capital account liberalisation subjects EMEs’ “fundamentals” to the judgement of foreign investors and rating agencies, forcing **pro-cyclical fiscal tightening after capital-flow reversals**
- The **“sanctioning power” of financial markets** can exceed the capacity of states to unilaterally set public debt and economic policy
- **FX-reserve accumulation** carries fiscal costs through sterilisation (interest-rate differentials), further narrowing the space for countercyclical policy (Stockhammer, 2022)

Interplay of asymmetries in money, finance and macroeconomy



Source of centre figure: de Paula et al. (2026: 42), extensions by HJ

Policy recommendations for EMEs: Exchange rate / capital account

Problems:

- ⇒ **higher vulnerability** to external/cost-push shocks;
- ⇒ **Volatile exchange-rate movements** pose acute monetary-policy challenges
- ⇒ **public debt management** remains subject to wealth holders' scrutiny even when debt is issued domestically

Recommendations:

- **managed floating exchange-rate regime**, targeting a **competitive** and **stable** real exchange rate, not inflation
- **FX-reserve accumulation and capital account regulation** as complements to raise **c** and lower volatility of **a**, to support an increase in the liquidity premium **l** (*de Paula et al., 2026: 49–50*).
- **Dual employment–inflation mandate for the CB** with macroprudential tools (*Tinbergen's theorem*)
- **ITR is not the appropriate approach for EMEs**
- Sustained **trade/current-account surpluses** and **lower net external debt** are a necessary **condition to climb the currency hierarchy** over the medium term (*Riese 2004; de Paula et al., 2026: 55*) – yet, only an option for a few countries

Policy recommendations: Countercyclical fiscal policy

Problems:

- ⇒ **higher vulnerability** to external/cost-push shocks;
- ⇒ **Volatile exchange-rate movements** pose acute monetary-policy challenges
- ⇒ **public debt management** remains subject to wealth holders' scrutiny even when debt is issued domestically

- **Countercyclical public investment**, balanced over the long run, to stabilise aggregate demand
- **Structural/cyclically-adjusted fiscal rules** and **commodity stabilisation funds** (e.g. Chile's FEES*) enlarge fiscal space for countercyclical policy (*Huidrom et al. 2016, de Paula et al. 2026: 53*).
- **Capital flow regulation** both provides monetary autonomy and curtails speculative pressure on the exchange rate, widening fiscal space at the same time (*de Paula et al., 2026, pp. 53–54*).

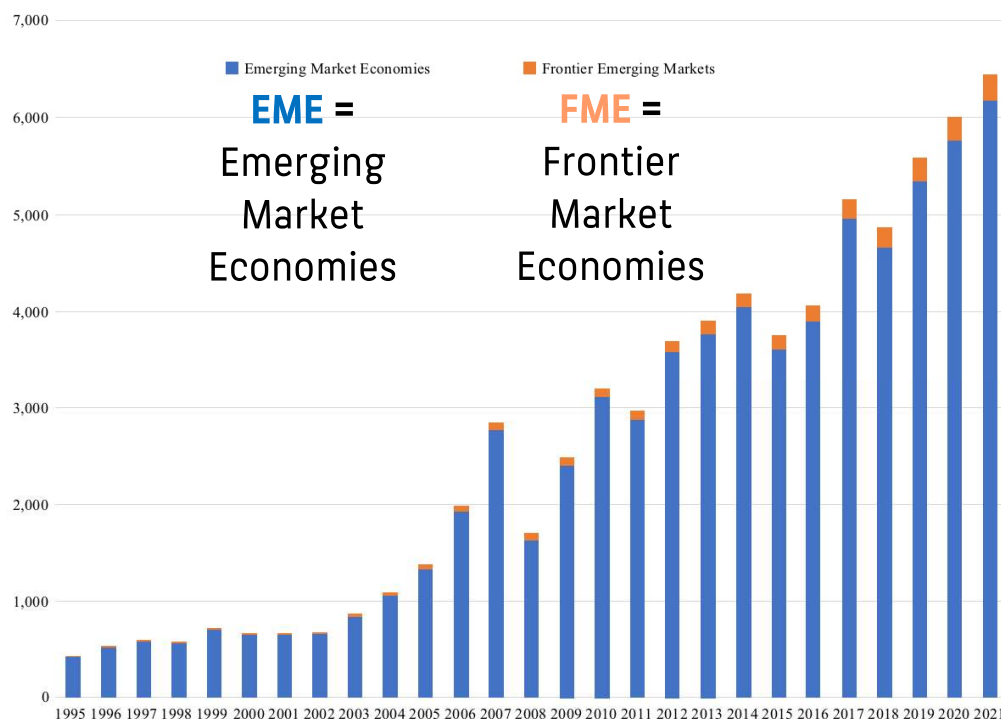
*FEES = El Fondo de Estabilización Económica y Social (FEES)

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Increasing global external liabilities of EMEs und FMEs since the mid-1990s

EMEs und FMEs portfolio debt & foreign equity investment in USD billion



Notes: EMEs: sample of EMBI+ excluding Venezuela and including India and Malaysia; FMEs: see Appendix 1.
Source: Authors' elaboration with data extracted from Milesi-Ferretti (2023).

Fig. source: Prates et al. (2023: 288)

- **EMEs' share of global external assets rose from 6% (1995) to 12% (2018)** since the mid-1990s,
- **FMEs started to receive private foreign capital inflows!**
- Flows to FMEs appear small, but are proportionally higher than those to EMEs in relation to their GDP size.

Emerging Market Economies (EME) in JP Morgan Index

(EME index EMBI+, excluding Venezuela and including India & Malasia, 25 countries)

LAC (9)	SSA (1)	MENA (4)	SAS (1)	EAP (5)	ECA (6)
Argentina	South Africa	Egypt	India	China	Croatia
Brazil		Oman		Indonesia	Hungary
Chile		Qatar		Philippines	Romania
Colombia		Saudi Arabia		Malasia	Russia
Dominican Republic				Thailand	Turkey
Ecuador					Ukraine
Mexico					
Panama					
Uruguai					

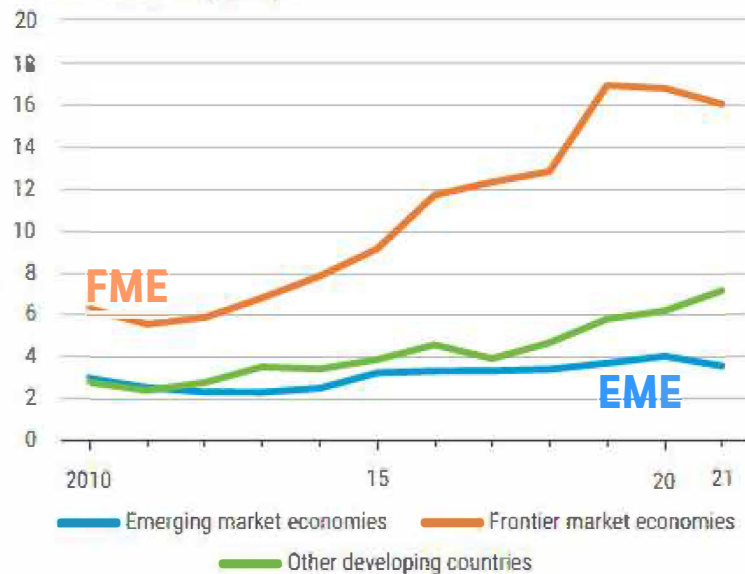
Frontier Market Economies (FME) in JP Morgan Index (EMBI NextGen, 38 countries, launched in 2011)

LAC (10)	SSA (13)	MENA (3)	SAS (3)	EAP (3)	CA (6)
Barbados	Angola	Iraq	Pakistan	Mongolia	Armenia
Belize	Cameroon	Jordan	Sri Lanka	Vietnam	Azerbaijan
Bolivia	Côte D'Ivoire	Tunisia	Maldivas	Papua New Guir	Belarus
Costa Rica	Ethiopia				Georgia
El Salvador	Gabon				Tajikistan
Guatemala	Ghana				Uzbekistan
Honduras	Kenya				
Jamaica	Mozambique				
Paraguay	Namibia				
Suriname	Nigeria				
	Rwanda				
	Senegal				
	Zambia				

FME debt service is high in relation to government and export revenues

Public and publicly guaranteed external debt service relative to government revenues
(Percentage)

A. Selected country groups



Public and publicly guaranteed external debt service relative to export revenues
(Percentage)

A. Selected country groups

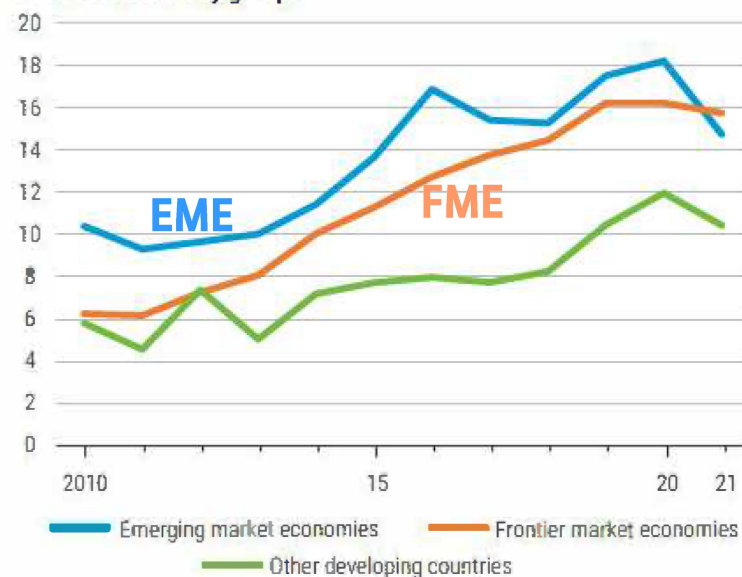


Fig. Source: UNCTAD (2023: 62)

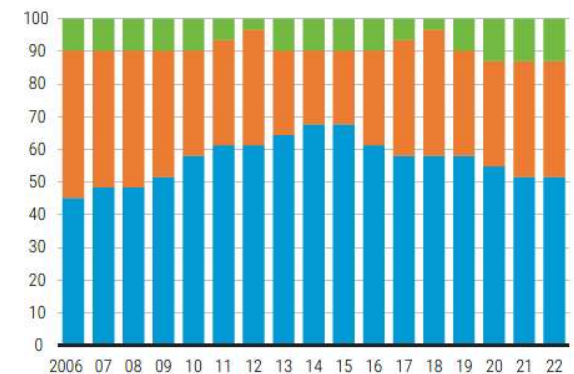
Why did Frontier Market economies (FMEs) start to receive private foreign capital inflows?

- **Why did FMEs become attractive during the 2000s?**
 - Period of **low volatility** up to the GFC (=high risk tolerance) followed by **low interest rates in advanced countries after GFC**
 - **Upgrading of EMEs** to investment-grade status (roughly half of EMEs reached this status by the mid-2010s) left a vacuum of attractive non-investment-grade countries
 - over 90% of FMEs were non-investment grade (2006–2023)
- **Why did FMEs welcome private capital inflows?**
 - Economic graduation: if economic development leads to graduation out of the LIC developing country status, the country can no longer receive several types of official development aid (“missing middle of development finance”)

Source of figures: UNCTAD (2023: 60).

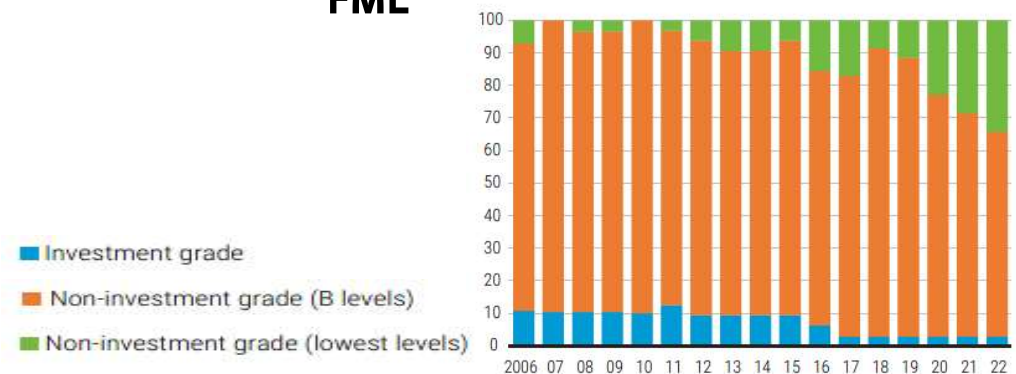
EME

A. Emerging market economies

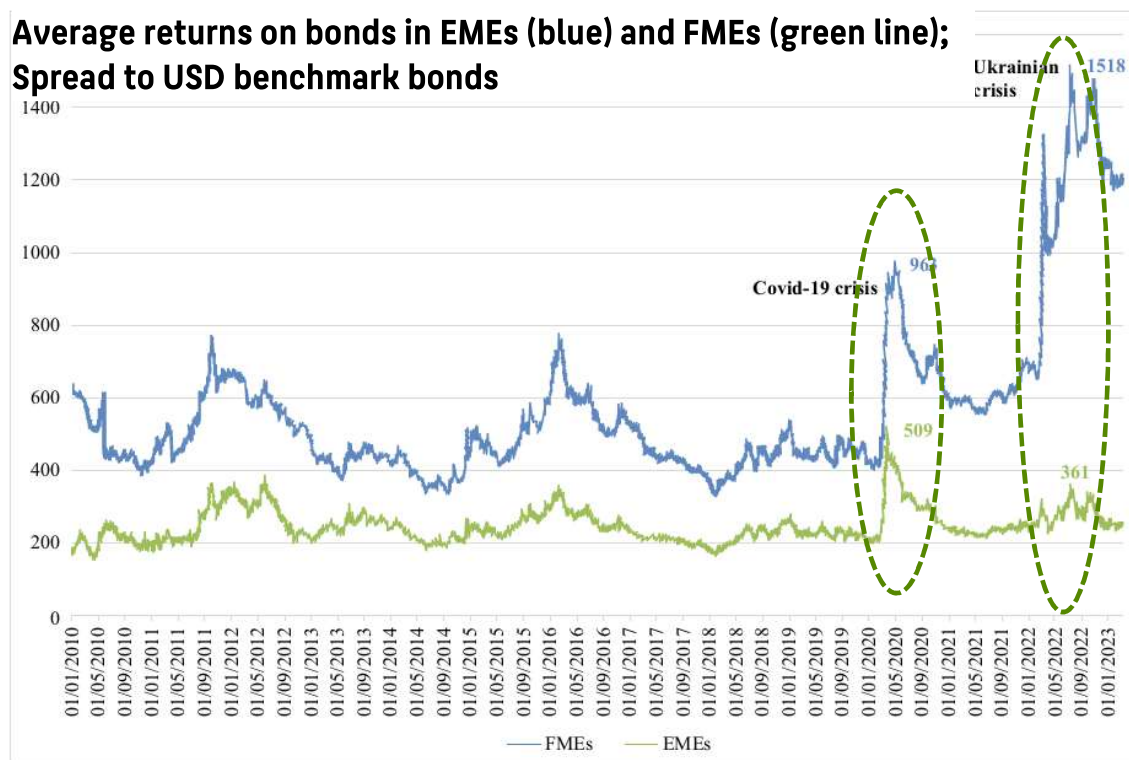


FME

B. Frontier market economies



FMEs became attractive to foreign investors – but at higher returns than EMEs, especially in times of volatile markets



Source of figure: Prates et al. (2023: 292)

Heike Joebges | Currency Hierarchy

FMEs: Higher bond yields required to compensate for

- lower liquidity premium and higher exchange-rate volatility ($\Rightarrow$ CH)
- PLUS: to compensate for higher yield volatility ($\Rightarrow$ FH)

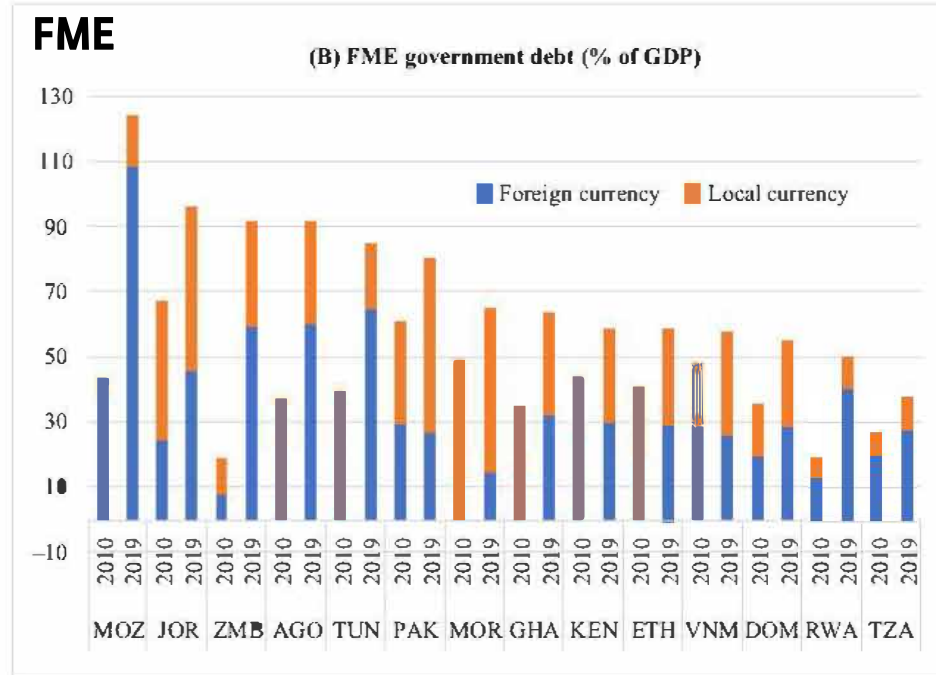
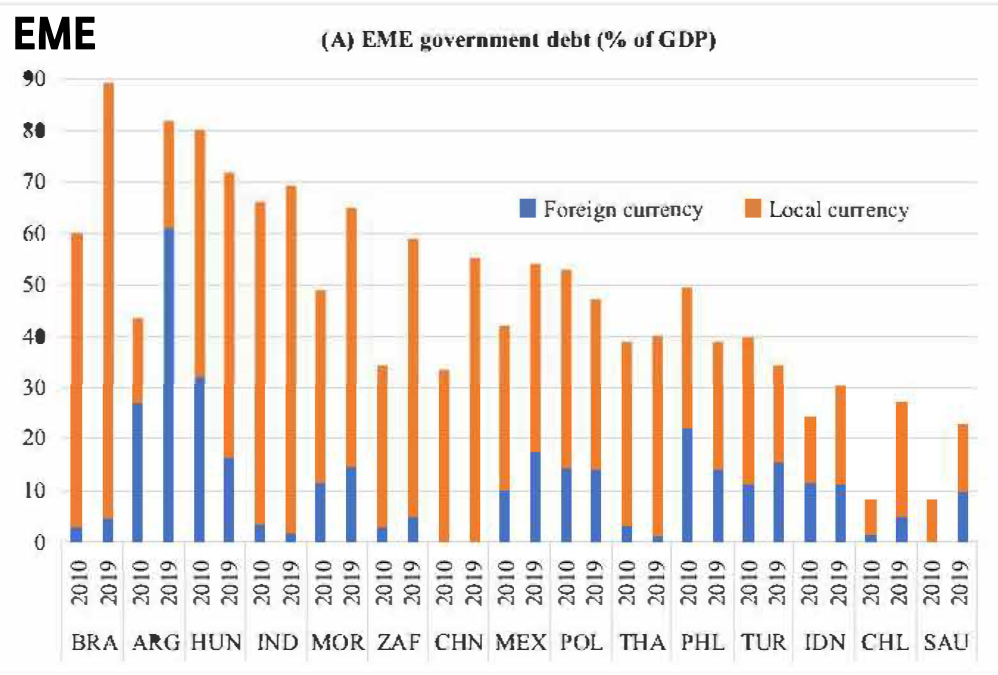
This reinforces a **vicious circle of higher perceived credit risk.**

AND: Both, EMEs and FMEs, stay vulnerable to shocks in the centre!

- Even though EMEs shifted to local-currency issuance (“original sin redux” channel)
- While FMEs are dominated by foreign-currency-denominated sovereign debt (“original sin” channel)

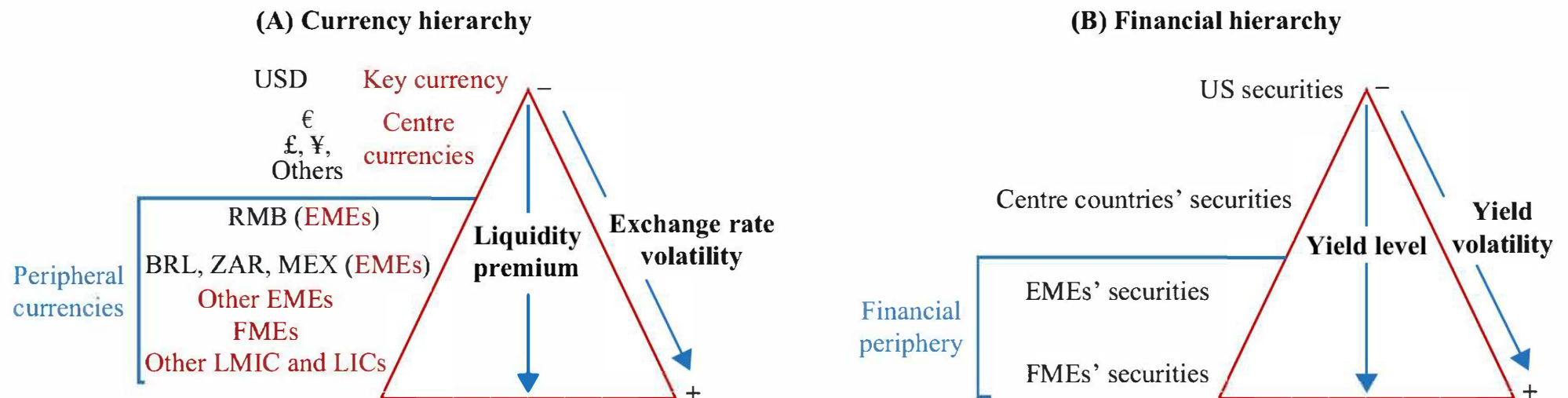
Differences in official government debt denomination between EMEs & FMEs

Debt by currency composition in % of GDP, 2010 vs. 2019, EME (LHS) & FME (RHS)



Data source: Prates et al. (2023: 293)

Why are bond returns of FMEs higher than those for EMEs, especially in volatile times? Explanation: Financial Hierarchy as a complement to Currency Hierarchy



Countries at the bottom of the hierarchy have to compensate investors with monetary returns ($a+c-q$) for lower liquidity premia (l)

... and for higher volatility of their assets!

Source of figure: Prates et al. (2023: 291)

Why is foreign debt denomination relevant for financial vulnerability?

Excursus: Original Sin & Original Sin Redux

- **“Original sin”** (*Eichengreen et al., 2002*): EMEs’ inability to borrow abroad in their own currency creates a currency mismatch between domestic-currency assets and foreign-currency liabilities
- Since the 1990s/2000s, deepening local-currency bond markets decreased original sin at the sovereign level, shifting mismatch risk onto foreign investors
- **“Original sin redux”** (*Carstens & Shin, 2019; Hofmann et al., 2020*): EME currency depreciation now triggers losses for foreign holders of local-currency bonds, prompting sell-offs that amplify depreciation and raise bond spreads – investors “lose twice” (*Shin, 2023*)
- **Duration risk** increases currency risk: longer maturities make bond prices more sensitive to yield changes, amplifying portfolio outflows (*Bertaut et al., 2025*)



Financial vulnerabilities of EMEs in the past:

- Mainly based on **foreign currency (USD) debt**:
 - “Latin American debt crisis” in the 1980s
 - “Tequila” crisis in Latin America in 1994/5
 - “Asian crisis” in 1997/8



Financial vulnerabilities since after the GFC in 2008:

- **EMEs (and partly FMEs) can issue domestic currency debt**
- **But: Benchmark-driven funds** track predefined country baskets (roughly 70% of investment funds’ country allocations), **reinforcing herding and common shocks across EMEs** (*Raddatz et al., 2017*)
- Central hypothesis: **external vulnerability** has not decreased but **changed its nature and transmission channels** – from “original sin” to “original sin redux” (*de Paula et al. 2026: 58; Prates et al. 2023*)

Additional effects in Frontier Market economies (FMEs): increasing vulnerability to shocks

Crisis amplifiers in Frontier Market economies:

- Domestic **capital markets** are **shallower and less liquid** (=> low IMF indicator values for financial-institution and financial-market depth), amplifying the '**big fish, small pond**' impact of flight-to-quality episodes (*Haldane, 2011*)
- Other **sources of vulnerability** (*de Paula et al. 2026: 101*) :
 - high external debt; volatile by composition;
 - lower FX reserves;
 - a negative net international investment position;
 - high foreign-currency public-debt share.
- **Consequences:** greater macroeconomic instability, lower fiscal space, and rising poverty and inequality in already poor, unequal countries

Proposed reforms (*de Paula et al. 2026: 101–102*)

- capital flow regulation,
- a permanent multilateral sovereign debt resolution framework,
- scaled-up concessional development finance, and
- eligibility criteria based on multidimensional vulnerability indicators (e.g. the UN Multidimensional Vulnerability Index)

Several FMEs & some EMEs became vulnerable to “debt distress” in the wake of the pandemic

Pre-COVID-19	COVID-19 shock (March 2020)	Monetary tightening	
		War in Ukraine (February 2022)	Banking distress (March 2023)
Suriname	Angola	Belize	Belize
Zambia	Belize	El Salvador	Bolivia (Plurinational State of)
Angola	Cameroon	Ethiopia	El Salvador
Belize	Gabon	Ghana	Ethiopia
Bolivia (Plurinational State of)	Ghana	Pakistan	Ghana
Cameroon	Iraq	Sri Lanka	Maldives
Costa Rica	Mongolia	Suriname	Mozambique
El Salvador	Mozambique	Tajikistan	Pakistan
Ethiopia	Nigeria	Tunisia	Sri Lanka
Gabon	Sri Lanka	Zambia	Suriname
Ghana	Suriname	Maldives	Tajikistan
Iraq	Tajikistan	Mozambique	Tunisia
Kenya	Tunisia	Papua New Guinea	Zambia
Maldives	Zambia	Angola	Gabon
Mongolia	Costa Rica	Bolivia (Plurinational State of)	Kenya
Mozambique	El Salvador	Cameroon	Angola
Nigeria	Ethiopia	Costa Rica	Cameroon
Pakistan	Kenya	Gabon	Costa Rica
Papua New Guinea	Pakistan	Iraq	Iraq
Sri Lanka	Bolivia (Plurinational State of)	Kenya	Mongolia
Tajikistan	Maldives	Mongolia	Nigeria
Tunisia	Papua New Guinea	Nigeria	Papua New Guinea

Market access Almost at distress level Distress level

Debt Distress definition:

- ⇒ Not meeting the criteria of IMF debt sustainability framework (DSF)
- ⇒ That requires that the country can repay debt without restructuring
- ⇒ Distressed countries:
 - ⇒ Those receiving financial support from the IMF or
 - ⇒ IMF publicly classified debt as “high” or “unsustainable”
 - ⇒ IMF publicly classified the issuer is under “debt distress” or at “high risk of debt distress” (following criteria of the DSF)

Data source: UNCTAD (2023: 64)

Currency Hierarchy

1	Asymmetries in the international monetary system
2	Paradigmatic embedding
3	The concept of Currency Hierarchy
4	Policy implications
5	Frontier Markets & Financial Hierachy
6	Conclusions
7	Applications
8	

Conclusions

Currency Hierarchy

- Stresses the hierarchical structure of the IMS,
- ...organised around a key currency that best performs the three functions of money internationally.
- Argument: Monetary and financial asymmetries between centre and periphery structurally constrain the policy space of peripheral economies
- FMEs' face even greater external constraints and development financing needs than EMEs in the 1990s
- ... and are even more vulnerable to the financial asymmetries of financial globalisation.
- CH provokes macroeconomic instability, lower fiscal space, and a consequent increase in poverty in already poor countries
- **Reform of the IMS** as a potential remedy:
 - Regulation of capital flows
 - Multilateral framework for debt resolution
 - Scale-up of affordable development finance (concessional loans by MDBs and RDBs and ODA)
 - Adoption of a new criterion instead of income thresholds for eligibility to such finance.
- **Without reform**, inclusion of further low-income countries into the IMS imply deleterious consequences for development, poverty reduction and green transition in the periphery.

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Mexican vs. US bond yields & MXN per USD

Government Benchmarks, 5 Year, Yield

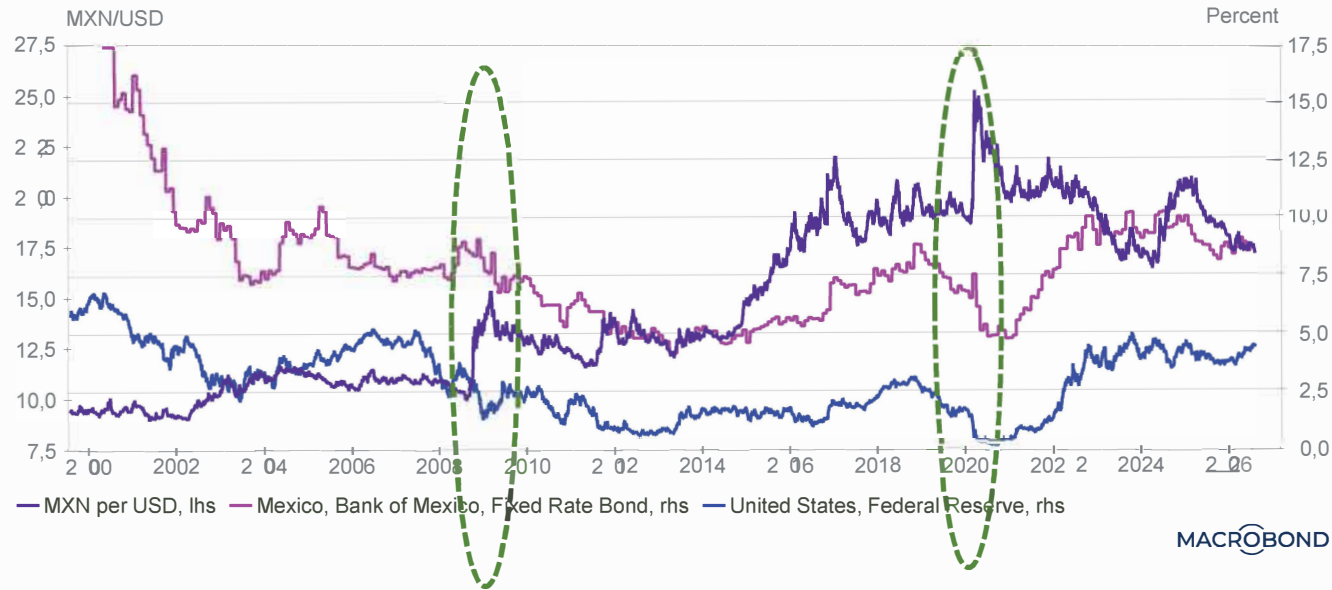


Fig. source: Macrobond

Policy rates in Poland and Czech Republic compared to the ones in the US and the euro area

Policy Rates of the Fed, ECB, NBP and CNB

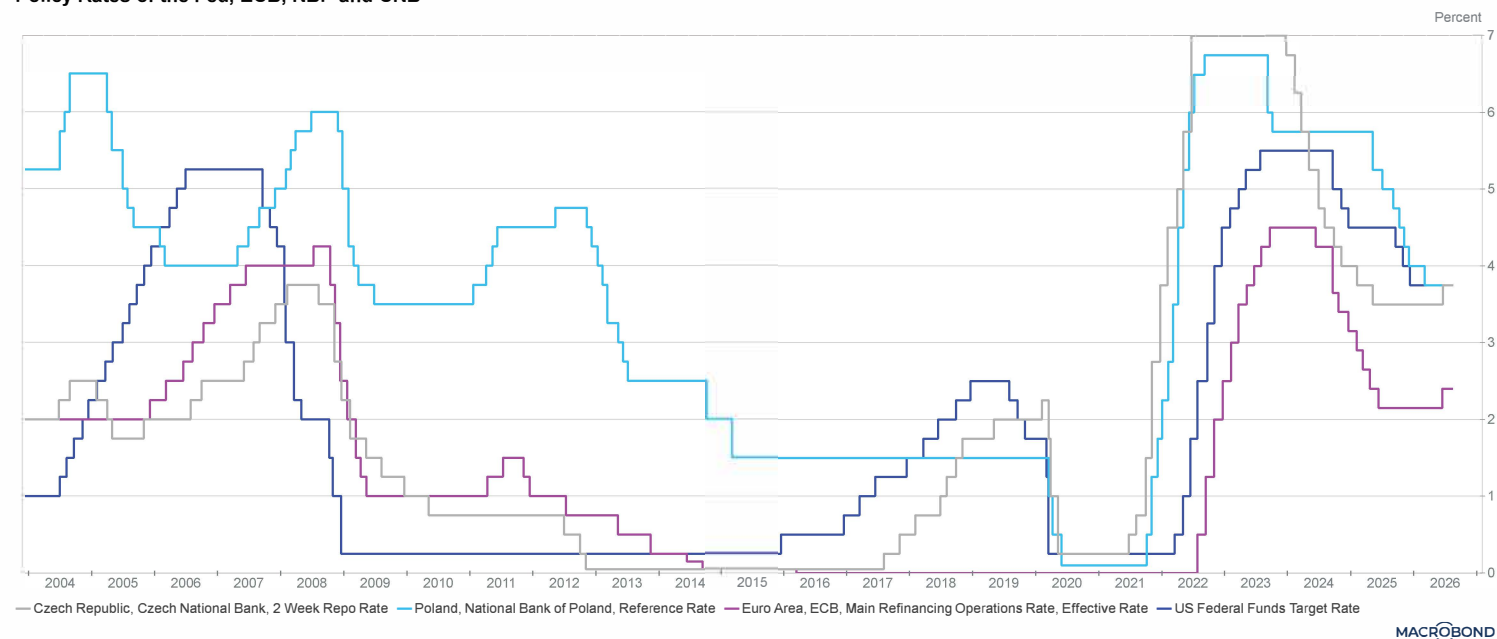


Fig. source: Macrobond

Currency Hierarchy

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