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# INTERNATIONAL POLITICAL ECONOMY OF POST-IMPERIAL STERLING: FROM EXORBITANT PRIVILEGE TO NEO-DEPENDENT RESILIENCE IN THE GLOBAL MONETARY HIERARCHY

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## МІЖНАРОДНА ПОЛІТИЧНА ЕКОНОМІЯ ПОСТІМПЕРСЬКОГО СТЕРЛІНГА: ВІД НЕПОМІРНОГО ПРИВІЛЕЮ ДО НЕОЗАЛЕЖНОЇ СТІЙКОСТІ У ГЛОБАЛЬНІЙ МОНЕТАРНІЙ ІЄРАРХІЇ

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**Summary.** The article reconceptualises sterling's post-imperial role as an institutionally determined regime in which monetary reach stems less from economic mass than from jurisdictional authority, London market infrastructure, and credible crisis backstops. It defines a "sterling order" as an infrastructural-juridical configuration and shows how English-law contracting, network externalities, sterling-collateral liquidity, and Bank of England interventions sustain conditional resilience while reproducing hierarchy and asymmetric distribution. Privilege survives as convenience premia and intermediation rents, while crises transmit via liquidity spirals and confidence shocks. The framework informs the diagnosis of fragilities, non-bank backstops, payment-settlement resilience, and mitigation of unequal burdens.

**Keywords:** currency hierarchy; currency internationalisation; international political economy; monetary power; reserve currency; transmission mechanism; monetary statecraft; global liquidity; distributional economics.

**Анотація.** У статті обґрунтовано потребу переосмислення міжнародної ролі фунта стерлінгів у постімперську добу як інституційно детермінованого режиму, де монетарна впливовість визначається не стільки масштабом національної економіки, скільки параметрами правової юрисдикції, конфігурацією ринкової інфраструктури та очікуваннями щодо дієвості кризових запобіжників. Метою є концептуалізація «стерлінгового порядку» як інфраструктурно-юридичної конфігурації та ідентифікація механізмів, які забезпечують відносну стійкість валюти, одночасно відтворюючи ієрархію глобальних грошей і специфічні розподільчі ефекти. Методологія поєднує аналіз і синтез, індукцію й дедукцію, абстрагування та узагальнення, моделювання й системний підхід, доповнені порівняльно-історичним і каузальним аналізом для виявлення еволюційних зрушень, інституційних зв'язків і зміни тягаря коригування. Результати показують, що стійкість стерлінга підтримується комплементарною взаємодією англійського договірного права, лондонських мережевих ефектів, ліквідності та мобілізованості стерлінгової застави й архітектури ліквіднісних інтервенцій центрального банку. Водночас ця опора є контингентною: вона концентрує операційні ризики в критичних вузлах і підвищує чутливість до зовнішніх циклів ризику. Історичні привілеї трансформуються в «премію за зручність» безпечних активів і ренту фінансового посередництва, тоді як кризи дедалі частіше розгортаються як спіралі ліквідності та шоки довіри. Розподіл вигід і втрат є асиметричним між кредиторами й боржниками, працею та капіталом, а також регіонами з різною глибиною інтеграції у фінансові мережі. Показано, що валютні зрушення й стабілізаційна політика переносять витрати коригування через фінансові вузли, посилюючи просторові диспропорції. Практична цінність полягає у рамці для діагностики вразливостей ринкової структури, проектування запобіжників для небанківських посередників, підвищення надійності платіжно-розрахункової інфраструктури та пом'якшення нерівномірної внутрішньої й міжнародної інцидентності валютної волатильності.

**Ключові слова:** валютна ієрархія; валютна інтернаціоналізація; міжнародна політична економія; монетарна влада; резервна валюта; трансмісійний механізм; монетарне державництво; глобальна ліквідність; розподільча економіка.

### 1. Introduction

Debates on international currency status too often reduce monetary influence to macroeconomic scale or geopolitical primacy, thereby under-specifying the institutional and infrastructural conditions through which cross-border

currency use is produced, stabilised, and disciplined. This omission is analytically and practically consequential for post-hegemonic and second-tier currencies, whose external roles persist through legal jurisdiction, market infrastructures, collateral ecosystems, and crisis backstops rather

than through global nominal anchoring. Without a mechanism-centred account of these pillars, it is difficult to explain why currency resilience can coexist with structural subordination, how external stress is transmitted through funding and settlement networks, and how adjustment costs are distributed across domestic constituencies and external counterparties. Addressing this problem is directly relevant to financial-stability policy, market-infrastructure governance, and the design of credible backstops and regulatory perimeters that preserve openness while limiting fragility and regressive distributional outcomes.

Recent scholarship has advanced the study of sterling's decline and persistence, yet the field remains analytically fragmented. B. Eichengreen and M. Flandreau [9] reconstruct the chronology of reserve-currency succession and demonstrate the role of inertia in reserve holdings; however, the institutional mechanisms through which a demoted currency preserves operational relevance require further investigation. M. Avaro [1] analyses post-war sterling as a "zombie international currency" sustained by exchange controls, diplomatic pressure, and a captive sterling-area market; however, the later transformation of these coercive arrangements into market-based and infrastructural forms of resilience is not examined in sufficient detail. M. D. Bordo, R. MacDonald and M. J. Oliver [5] analyse the 1964–1967 sterling crises econometrically and show the role of external assistance in maintaining the peg; however, the long-run distributive consequences of such support remain insufficiently specified. A. Hussain [12] investigates the 1947 Indian sterling-balance negotiations through the prism of decolonisation and unstable sovereignties; however, questions remain regarding how imperial balance-sheet legacies shaped the later political economy of post-hegemonic sterling.

A broader international political economy literature explains international currency status through macroeconomic scale, credibility, and geopolitics, but this perspective also requires refinement. B. Eichengreen, A. Mehl and L. Chițu [10] identify both pecuniary and security determinants of reserve-currency choice; however, legal jurisdiction, payment infrastructures, and collateral governance remain under-specified. P. Subacchi and P. van den Noord [22] reconsider exorbitant privilege through the lens of fiscal autonomy; however, they do not explain how a second-tier currency may retain only partial privilege under conditions of hierarchical dependence. Thus, while the macro-geopolitical literature clarifies important background determinants, the infrastructural and juridical reproduction of sterling's international role still requires further research.

The literature on the domestic political economy of sterling-related adjustment also remains partial. H. Breinlich, E. Leromain, D. Novy and T. Sampson [7] examine the inflationary and living-standards effects of Brexit-related depreciation; however, sterling's international role as an infrastructural currency is not incorporated into the explanation. P. McCann [16] analyses the UK geography of discontent and interregional inequality; however, the monetary and financial channels through which currency status interacts with territorial divergence remain insufficiently explored. T. Oren and M. Blyth [18] investigate the origins of the UK financed growth model; however, its external monetary dimension and its connection with sterling's international positionality require further investigation. F. Sá [20] examines the effect of foreign investors on local housing markets; however, the relationship between internationally mobile capital, sterling credibility, and asset-price stratification is not systematically integrated into a currency-order framework.

Accordingly, the unresolved problem is integrative: the literatures on sterling's historical retreat, contemporary transmission, and domestic political economy remain insufficiently joined within a single mechanism-centred framework in which legal jurisdiction, market infrastructure, collateral capacity, and backstop eligibility jointly explain both sterling's persistence as a resilient second-tier currency and the distributional patterning of gains and losses across external holders and domestic constituencies. The purpose of the article is therefore to conceptualise the sterling order as an infrastructural–juridical regime and to identify the mechanisms through which it sustains sterling's contemporary international role while shaping crisis transmission and distributional effects.

## 2. Materials and methods

The study relies on general scientific and special research methods. General scientific methods include analysis to distinguish the historical, institutional, infrastructural, and distributional dimensions of sterling's international role; synthesis to integrate them into a single conception of the sterling order; induction to derive broader conclusions from specific historical and institutional cases; deduction to interpret the evidence through the frameworks of international political economy and monetary hierarchy; and modelling to construct a mechanism-centred analytical framework. Special methods include historical analysis to periodise sterling's evolution, institutional analysis to examine English law, payment and clearing systems, the gilt collateral

ecosystem, and the Bank of England’s liquidity architecture, and comparative analysis to position sterling relative to the US dollar, the euro, and the renminbi. The empirical basis of the article comprises scholarly publications, official policy and regulatory documents, and descriptive macro-financial indicators on reserves, payments, foreign-exchange turnover, invoicing, and ownership structures. The article also uses a compact comparison of current monetary-policy and inflation indicators across selected European monetary jurisdictions and countries. This comparison serves as an observable proxy for monetary restrictiveness, liquidity conditions, and confidence in the currency regime.

Sterling’s international ascent and retreat can be periodised into five phases, spanning its role as

the hegemonic currency of the nineteenth-century Pax Britannica, its successive erosions and managed withdrawals across the twentieth century, and its more recent repositioning as a resilient yet specialised secondary currency. Each phase (Table 1) is defined by a prevailing anchoring regime (gold or managed parities), a cluster of systemic shocks (war, crisis, regime breakdown) that reset constraints, the political-economic triggers that precipitated transition, and the ensuing distributional incidence of adjustment between Britain and external sterling users and holders.

Across the *longue durée*, sterling’s international role did not disappear with the end of British hegemony, but was repeatedly reconfigured as successive anchors eroded and new buttresses were constructed through bloc

Table 1

**Longue durée evolution of sterling’s international role and anchoring regimes**

Period	Regime configuration	Transition pathway and incidence profile
1	2	3
Phase I (pre-1914) Hegemonic Sterling	Under the classical gold standard (c. 1880s–1914), sterling was the dominant international currency and London the hub for trade finance, payments, and securities intermediation, with ~60% of world trade invoiced/settled in sterling and ~half of official reserves held in sterling assets by the early 20th century	Britain enjoyed an exorbitant privilege <i>avant la lettre</i> : cheap deficit finance rested on foreign – especially colonial/ dominion – holdings of sterling securities, while reserve accumulation functioned as low-yield lending to the metropole, subsidising UK absorption and leverage. World War I was the decisive shock; debts and competitiveness losses made pre-war parity restoration increasingly untenable despite the 1925 return to gold, which embedded later fragilities [8]
Phase II (1919–1939) Managed Retreat	Sterling’s interwar role became structurally precarious as Britain confronted “top currency syndrome” (Susan Strange) while attempting re-anchoring via the gold exchange standard; it relied increasingly on informal Commonwealth-bloc dynamics as the dollar strengthened and sterling hegemony was contested	The rupture was the UK’s 1931 exit from gold and devaluation, which enabled monetary easing and depreciation during the Great Depression. Reflation proved incompatible with defending convertibility at an overvalued parity; depreciation imposed capital losses on external sterling holders (a real wealth transfer towards Britain) while briefly expanding policy space amid a shift in monetary gravity towards the United States
Phase III (1945–1972) Sterling Area Regime	Post-1945 sterling persisted through the Sterling Area, a reserve-and-payments bloc with sterling pegs, sterling-heavy reserves, and privileged access to London, combining Bretton Woods’ fixed sterling–dollar parity (\$2.80/£) with intra-area current-account convertibility rules that sustained captive demand despite UK weakness [5]	Destabilisation recurred through the 1947 convertibility crisis [17] and devaluations in 1949 (~30%, \$4.03→\$2.80) and 1967 (~14%, to ~\$2.40), each a “beggar-thy-creditor” transfer via a lower dollar value of overseas sterling reserves [21]. The regime unwound with Bretton Woods’ breakdown, decolonisation, and diversification, reaching an operational endpoint in June 1972 when exchange controls were extended to sterling-area transactions (Republic of Ireland excepted); IMF lending, US backing, and the G10 Basle Agreement (1968) guarantee of sterling balances aimed to avert disorderly collapse and spillovers
Phase IV (1973–1990s) Floating and financial liberalisation	After the 1971–73 collapse of fixed parities, sterling floated, and its international role contracted, even as London expanded through liberalisation; the anchor shifted to domestic credibility (inflation targeting from 1992), while ERM membership (1990–92) failed as an imported nominal anchor	The 1976 sterling crisis required a \$3.9bn IMF programme and marked the post-war nadir of monetary sovereignty; sterling’s reserve share fell from ~55% (1945) to <10% by 1980 as portfolios rotated to the dollar and Deutsche Mark. Post-1979 liberalisation – capital-control removal and the 1986 Big Bang – accelerated multi-currency eurocurrency markets [18], and incidence split domestically as early-1980s disinflation redistributed towards finance and away from manufacturing regions, while the September 1992 ERM exit and ~15% depreciation later improved competitiveness and enabled rate cuts

Continuation of the table 1

1	2	3
Phase V (2000s–present) Globalised sterling niches	Sterling stabilised as a resilient second-tier currency, supported by anti-inflation credibility, London’s market-infrastructure network externalities, and an implicit dollar-system backstop (including Fed swap lines), with liquidity sustained by the City’s FX ecosystem	By the mid-2020s, sterling comprised ~5% of reserves [14], ~7–8% of SWIFT payments by value, and ~13% of global FX turnover on one side, while London intermediated ~38% of global FX turnover in 2022 [2]. The regime was stress-tested by the 2007–09 GFC, 2016 Brexit, March 2020 dash-for-cash, and the September 2022 gilt-LDI crisis requiring BoE buyer-of-last-resort intervention [3], while distributional effects combine modest borrowing-cost compression via liquidity/convenience-yield channels and City intermediation rents (financial-services trade surplus ~£60–80bn) with higher exposure to external risk cycles and asset-price inflation under low rates and QE that has reinforced regional and class disparities

Source: devised by the author

arrangements, policy regime shifts, and the leveraging of London’s market-infrastructure and legal advantages. The outcome is best understood as a continuous yet transformed internationalisation rather than a binary loss of “reserve currency” status, with contemporary metrics reflecting network inertia from an installed base created during earlier dominance [9]. Subsequent analysis can therefore treat sterling’s present role as an exercise in monetary statecraft conducted through law, infrastructure,

and credibility mechanisms rather than through empire or fixed parities.

Sterling’s international standing in the post-hegemonic era relies on the quality and reach of the institutions that support its use (Table 2). In contrast to a currency like the US dollar – whose dominance is bolstered by America’s vast economy, military might, and the dollar’s ubiquitous network effects – the pound’s relative influence is disproportionately derived from Britain’s institutional and infrastructural strengths.

Table 2

**Infrastructural – juridical pillars sustaining post-hegemonic sterling**

Pillar	Operational core	Sterling implications and limits
1	2	3
Legal-jurisdictional reach of English law	English common law governs a large share of syndicated loans, international bonds, and derivatives because it is treated as predictable yet adaptable, with UK courts and arbitration specialised in complex commercial disputes. In the stock of international sovereign bonds, English law (~45%) and New York law (~52%) dominate by nominal principal, extending an English-law nexus well beyond UK issuers [13]	The English-law nexus channels transactions into London’s legal infrastructure and can, in some cases, support sterling usage (currency choice, forum selection), particularly when UK entities participate. Even with non-sterling settlement, enforcement can generate sterling-adjacent requirements (collateral, UK-institution settlement, judgment debts). The 1992 ISDA Master Agreement (English law), reinforced by netting enforceability, functions as a public-good legal technology lowering counterparty risk and strengthening London’s cross-currency attractiveness [15]. OFSI sanctions leverage applies to deals touching UK banks, depositories, or courts, but remains structurally narrower than dollar-centred extraterritoriality. This pillar is contingent on rule-of-law credibility and continuous legal updating; perceived politicisation or parochialism would accelerate substitution to New York law or alternative hubs (e.g., Singapore), eroding structural power over market “operating systems”
Payment, clearing, and messaging systems	Sterling settlement is anchored in the Bank of England’s RTGS and high-value CHAPS finality in central-bank money. The RTGS Renewal culminated in April 2025 with “RT2”, introducing ISO 20022 for CHAPS, strengthening resilience (cyber and redundancy), and widening access agendas (including exploration of non-bank PSP participation)	Finality plus ISO 20022 data richness and resilience upgrades keep sterling payments operationally competitive for global intermediaries. London-based multi-currency utilities embed sterling in market plumbing – LCH (major CCP for interest-rate swaps), Euroclear UK (UK securities settlement), and CLS (FX settlement with sterling as a core currency). Network externalities follow: institutions hold sterling balances for margin, pay-ins, and operational liquidity, sustaining “stickiness” despite a modest reserve share. The same concentration produces tail risks (choke points, cyber, single points of failure), so disruption would be reputationally costly for sterling and transmit stress through London-centred infrastructures

Continuation of the table 2

1	2	3
Safe-asset supply and collateral ecosystem	Sterling’s collateral base rests on gilts and Treasury bills. The nominal outstanding stock of central government sterling wholesale debt (excluding official holdings) was £2,522.4bn at end-December 2024; gilts are generally treated as safe/liquid despite an AA rating, with a long curve (to 50 years) and substantial foreign demand (overseas share 31% in 2023–24)	Deep gilt collateral supports sterling as a reserve/funding currency via repo mobilisation, but “safe” is liquidity-contingent: dysfunction emerged in March 2020 and September 2022 (LDI-driven fire sales and yield spikes). Dealer balance-sheet constraints can amplify liquidity spirals, making BoE purchases (2020) and emergency interventions (2022) central to collateral credibility. The LIBOR/SONIA shift modernised reference-rate infrastructure; scarcity still appears via repo “specials” (very low/negative rates) signalling convenience yield. Structural responses include DMO issuance adjustments (including greater bill supply) and the Contingent Non-Bank Financial Institution Repo Facility (CNRF) – designed July 2024, opened for applications January 2025 – to swap gilts for cash during severe dysfunction, reflecting the need for explicit collateral-backstop architecture [4]
Sterling lender-of-last-resort and market-maker architecture	The BoE combines standing facilities (e.g., Discount Window Facility) with system-wide operations (e.g., Contingent Term Repo Facility) and idiosyncratic Emergency Liquidity Assistance (notably Northern Rock, 2007). Post-2008, the toolkit broadened (e.g., Special Liquidity Scheme, term repos, asset purchases that also stabilise market functioning)	Credibility is reinforced by expectations of backstops and by UK inclusion in the Fed standing swap-line network (since 31 Oct 2013), building on 2008–09 crisis precedents, enabling dollar liquidity for UK banks under dollar funding stress. The swap-line “club” (with ECB, BoJ, SNB, BoC) reduces run dynamics yet clarifies hierarchy: the Fed remains the global lender of last resort, and the UK is structurally a net receiver of backstop capacity. BoE market-maker actions – £200bn QE expansion (March 2020) and up to £65bn gilt purchases (September 2022) – support sterling-market continuity but sharpen mandate-boundary and moral-hazard concerns. With non-banks increasingly systemic, the BoE’s 2023 work on a Liquidity Facility for Non-Banks aims to shorten crisis-liquidity chains post-LDI. Even so, sterling remains risk-aligned in global stress, typically depreciating as portfolios rotate into apex havens – mitigating dysfunction without overturning hierarchy-consistent reallocation

Source: compiled by the author

### 3. Results and Discussion

To complement the institutional discussion, Table 3 reports annual-average monetary-policy and inflation indicators for European monetary jurisdictions and countries relevant to the article’s argument. The comparison indicates that sterling operates within a heterogeneous European monetary environment in which similar nominal policy settings may yield sharply different real monetary conditions once inflation differentials are considered. This supports the broader claim that monetary resilience is shaped not merely by the headline policy rate, but by its interaction with liquidity arrangements, institutional credibility, and the capacity to maintain payment and settlement continuity under stress. For the purposes of a compact applied approximation, the article uses the following Fisher-based indicator of the ex post real policy rate:

$$RPR_i = \left( \frac{(1+i_i)}{(1+\pi_i)} - 1 \right) \times 100, \quad (1)$$

where  $RPR_i$  is the real policy rate (RPR) for country or jurisdiction  $i$ ,  $i_i$  is the nominal policy rate (NPR), and  $\pi_i$  is annual CPI or HICP inflation.

This cross-country comparison further underlines that monetary resilience emerges from a

broader institutional configuration rather than from nominal rates in isolation. In sterling’s case, English-law contracting and enforceable netting strengthen London’s market appeal; payment and clearing infrastructure convert that appeal into operational dependence; gilts provide the reserve and collateral base; and the Bank of England’s liquidity framework supports the system under stress. At the same time, the comparison also highlights sterling’s second-tier status: its resilience depends less on autonomous hegemonic capacity than on dense market infrastructure, credible domestic policy, and continued embeddedness, at the outer margin, within the dollar-centred swap-line order.

The interaction of these elements may be represented schematically. Figure 1 synthesises the governance architecture of the sterling monetary order by linking credibility, liquidity infrastructure, and backstop capacity to the principal channels through which sterling’s external role is reproduced. Figure 2 complements this static representation with a process-based one, outlining the anti-crisis mechanism through which shocks are transmitted into liquidity stress and subsequently contained through central-bank intervention in order to restore payment and settlement continuity.

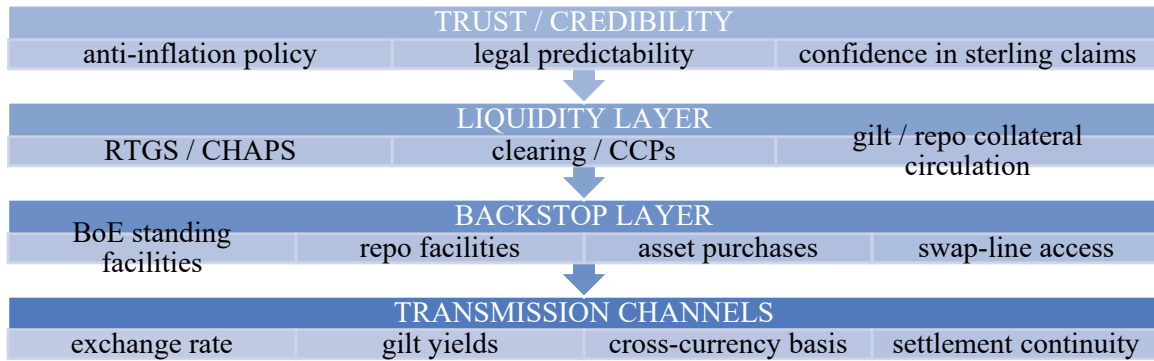
Sterling’s contemporary international role is best understood as a set of transmission

**Table 3**

**Selected monetary-policy and inflation indicators in Europe, 2021–2025**

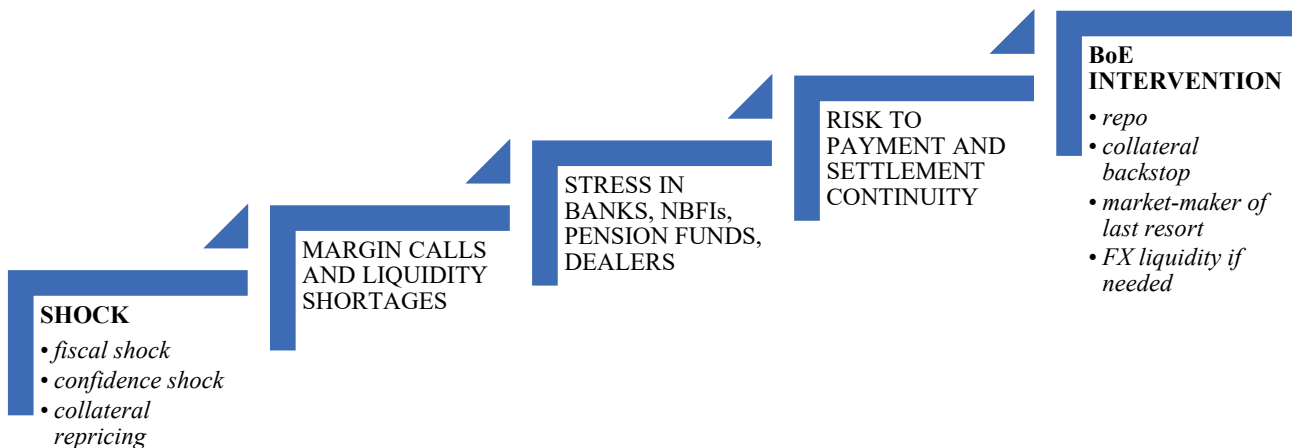
Country	Rate, %	2021	2022	2023	2024	2025	Analytical implication
UK (BoE)	NPR	0.12	1.42	4.64	5.13	4.23	Shift from negative to positive real rates, strengthening nominal credibility but increasing refinancing and balance-sheet pressure
	CPI	2.5	9.1	7.4	2.5	3.4	
	RPR	-2.32	-7.04	-2.57	2.57	0.83	
Switzerland (SNB)	NPR	-0.75	-0.08	1.54	1.29	0.23	Very low inflation and safe-haven credibility allow ultra-low nominal rates, while real conditions move from negative to near-neutral
	CPI	0.6	2.8	2.1	1.1	0.2	
	RPR	-1.34	-2.8	-0.55	0.19	0.03	
Sweden (Riksbank)	NPR	0	0.77	3.49	3.61	2.06	Monetary autonomy allowed forceful tightening, but real restraint became clearly positive only after inflation declined
	CPI	2.2	8.4	8.5	2.8	0.7	
	RPR	-2.11	-7.03	-4.66	0.75	1.37	
France (ECB)	NPR	-0.5	0.56	3.29	3.66	2.31	The common ECB nominal rate produced a relatively restrictive real stance under lower national inflation
	HICP	2.1	5.9	5.7	2.3	0.9	
	RPR	-2.55	-5.04	-2.28	1.33	1.4	
Slovakia (ECB)	NPR	-0.5	0.56	3.29	3.66	2.31	The same ECB nominal rate produced a much looser real stance under higher domestic inflation
	HICP	2.8	12.1	11	3.2	4.2	
	RPR	-3.21	-10.3	-6.95	0.45	-1.81	

Source: compiled by the author on the basis of official central-bank and statistical releases



**Figure 1. Governance architecture of the sterling monetary order**

Source: devised by the author



**Figure 2. Anti-crisis mechanism for payment and settlement resilience**

Source: devised by the author

mechanisms rooted in London’s infrastructural centrality rather than in any residual claim to apex reserve-currency status. The UK no longer supplies the world’s nominal anchor, yet sterling remains influential because London

concentrates market-making, legal contracting, benchmark production, and liquidity intermediation across currencies. This influence is uneven across domains. Sterling provides limited trade-price insulation because most UK goods trade is

invoiced in euros or dollars [11], while global commodities remain overwhelmingly dollar-priced even when benchmarked and traded in London. As a result, sharp sterling depreciations are typically inflationary through imported-price pass-through, while producing a comparatively weak export-volume response and therefore a stagflationary bias in major exchange-rate downturns. Sterling's leverage is thus more situational and contractual than invoicing-based, operating through English-law issuance and restructuring, risk allocation in complex contracts, and standard-setting episodes such as the transition from LIBOR to SONIA.

A second channel is multi-currency funding and the cross-currency basis, through which sterling is embedded in global dollar-liquidity cycles [6]. London intermediaries routinely hold dollar assets funded by non-dollar liabilities, so deviations from covered interest parity, especially GBP/USD basis widening in stress episodes, transmit global funding scarcity into UK financial conditions and signal tightening before it is fully visible in cash markets. The incidence is bank-tilted: central-bank liquidity relief reaches the system mainly through eligible dealer banks, while non-bank balance sheets such as asset managers, insurers, and pension funds face sharper hedging and rollover costs under margin and liquidity pressure. Monetary spillovers from the Bank of England are empirically detectable but generally modest relative to those of the Federal Reserve and often the ECB. The UK is more strongly shaped by inward spillbacks consistent with the global financial cycle [19], in which dollar rates, volatility regimes, and dollar-liquidity conditions influence UK yields, spreads, and sterling, thereby tightening the Bank's policy constraint set under divergence.

Sterling's stability is further underwritten by a backstop architecture that both mitigates crises and reproduces hierarchy. Domestic lender-of-last-resort capacities are complemented by membership in the swap-line inner circle, above all the standing Fed swap line, which allows the Bank of England to obtain and on-lend dollars to UK banks under dollar funding stress. The UK's outward liquidity provision is much narrower, and access rules create a domestic micro-hierarchy that mirrors the international divide between swap-line insiders and the broader reserve self-insurance periphery. Sterling is therefore stabilised by being embedded in the dollar-centred order: it retains meaningful infrastructural influence, but only through continued interoperability with, and implicit dependence on, the apex backstop.

These monetary arrangements are also distributional. A sterling-centred order has repeatedly

generated cross-border and domestic transfers that condition its political sustainability. At its height, Britain extracted an exorbitant privilege: cheap external finance and quasi-seigniorage rested on foreign, especially imperial, willingness to hold low-remunerated sterling balances in London, with India's wartime reserves as the canonical case [12]. When adjustment could no longer be deferred, the 1949 and 1967 devaluations imposed immediate real losses on external sterling holders, reducing the real burden of sterling claims and shifting wealth towards Britain. Sterling's long retreat was therefore partly financed through the externalisation of adjustment costs onto Sterling Area creditors, who often maintained reserve demand while the value of their assets eroded. Contemporary redistribution is smaller but persists through two channels: City intermediation rents from underwriting, legal, clearing, and ancillary services even where issuance is non-sterling, and a convenience yield on gilts that can depress borrowing costs below domestic fundamentals so long as credibility holds, though this advantage can reverse abruptly, as in 2022.

Sterling's positionality also shapes centre-periphery incidence. Historically, London could export stress through cross-border balance-sheet retrenchment: when sterling came under pressure, intermediaries curtailed foreign lending and repatriated liquidity, tightening funding for dependent borrowers. Incidence, however, is not purely one-way. QE-driven yield compression and depreciation can ease the local-currency burden of foreign sterling borrowers and raise valuations, while a weaker pound can improve foreign-currency prices of UK exports and benefit foreign consumers. Even so, the balance of privilege still appears to favour Britain, which has largely avoided classic sudden stops despite recurrent current-account deficits, with adjustment occurring mainly through exchange-rate movements, notably in 2008 and 2016, rather than wholesale loss of market access. The capacity to finance persistent external deficits without forced discontinuous contraction remains a defining reserve-currency advantage.

Within the UK, sterling's external role and exchange-rate volatility map onto strong class, sectoral, and regional gradients. Depreciations raise import prices in an import-intensive economy, lift CPI, and compress real wages when nominal pay lags. After 2016, pass-through outpaced wages, with consumer prices rising by an estimated 2.9% [7], making sterling weakness function as a regressive consumption tax on households most exposed to imported essentials. Depreciation simultaneously redistributes towards capital and internationally exposed firms through translation gains on foreign revenues and repricing power, consistent

with the post-2008 pattern in which profits recovered faster than wages. Appreciations reverse the price channel but preserve asymmetry: consumers benefit from cheaper imports, while tradables face margin compression and employment risk. These effects are reinforced by credibility-oriented policy, since a low-inflation, strong-currency bias tends to align with creditors and rentiers and may narrow the scope for demand support.

A second domestic channel operates through asset-price inflation and wealth stratification. Sterling's role supports capital inflows and low rates that raise property and equity valuations. London real estate has functioned as a global store of value within a liquid, legally secure jurisdiction, producing owner windfalls concentrated in London and the South East while worsening affordability for renters and younger cohorts [20]. With substantial foreign ownership of UK equities, cross-border demand also supports valuations that disproportionately benefit wealthy domestic shareholders. Crisis management has often cushioned asset holders: post-2008 QE raised bond and equity prices, deposit savers received negligible returns, and subsequent fiscal consolidation disproportionately reduced services used more intensively by lower-income groups. Spatial incidence is similarly skewed: London and the South East capture larger gains via finance and advanced services, whereas manufacturing-dependent regions have repeatedly absorbed costs from macro settings calibrated to currency credibility and financial-centre competitiveness, with bank rescues socialised and austerity falling more heavily on poorer regions. In growth-model terms, sterling status has supported a finance- and consumption-led configuration by allowing deficits to be financed by foreign capital without immediate external crisis, weakening incentives for tradables expansion. When confidence breaks, as in 1976 and 2022, adjustment arrives through higher rates and/or austerity, with concentrated costs for vulnerable groups.

Overall incidence can be summarised through interacting cleavages: wages versus profits, creditors versus debtors under low rates and QE, and wealthy southern asset holders versus lower-income, transfer- and wage-reliant regions. These inequalities also feed back politically. Left-behind discontent is often linked to Brexit [16], yet the immediate macroeconomic channel of post-referendum depreciation raised inflation and disproportionately harmed many of the same groups through higher food and fuel costs. Although mitigation is conceptually available through progressive taxation of financial rents, geographically targeted investment, and tighter macroprudential restraint of asset booms, past policy choices entrenched disparities. The sterling order is therefore not distributionally neutral: it

has tended to privilege capital over labour and London over much of the rest of the country, and the resulting backlash can become self-undermining by eroding the credibility on which sterling's external role depends. Sterling's stress history also shows a clear shift in crisis mechanics and in the state's mode of crisis management. In the post-war Sterling Area era, pressure derived mainly from parity and convertibility constraints. The 1947 convertibility collapse showed how legal dollar arbitrage could rapidly drain scarce reserves, while the 1949 and 1967 devaluations served as external-adjustment devices that stabilised the regime by imposing valuation losses on overseas sterling holders and transmitting inflationary impulses through the bloc. Once fixed-parity discipline became untenable, vulnerability moved inward to credibility, inflation dynamics, and macro-stabilisation under fiat money, exemplified by the 1976 IMF programme, where restored nominal credibility came at the cost of domestic consolidation, wage restraint, and higher unemployment, with losses concentrated on labour and welfare-dependent groups.

From the 1990s onwards, sterling crises were less about formal pegs than about market-based stress, political-risk repricing, and liquidity spirals in highly financialised balance sheets. The 1992 ERM collapse confirmed that misaligned semi-fixed regimes invite one-way speculative bets and can transfer public resources to private trading gains, even if depreciation later improves competitiveness. The 2007–09 crisis exposed wholesale-funding fragility in globally integrated UK banks, prompting an enlarged backstop repertoire of guarantees, asset swaps, deep rate cuts, and QE, whose distributional footprint combined socialised tail risks with post-crisis asset-price reflation favouring wealth holders and feeding later austerity. In 2016, the Brexit shock illustrated an expectations-driven currency event without immediate banking insolvency, with imported inflation and real-wage compression as the main incidence channel. In March 2020, gilt-market dysfunction showed that safe-asset status is liquidity-contingent under dealer balance-sheet constraints and therefore dependent on credible buyer-of-last-resort intervention and dollar liquidity via swap lines. The 2022 gilt-LDI episode concentrated these contemporary dynamics. A fiscal-credibility shock interacted with leveraged collateral transformation, producing a margin-call feedback loop that required rapid central-bank market-making to avert disorderly insolvencies in non-bank finance and pension intermediation. Taken together, these episodes suggest that post-hegemonic sterling is most stable when the UK does not attempt to behave as a top currency without the necessary fundamentals, and when the Bank of England can

deploy pre-positioned, broad-perimeter liquidity tools to arrest collateral-driven spirals early. They also reveal the double-edged character of currency power: privilege arises from systemic relevance and backstop expectations, but the cost is heightened sensitivity to investor confidence and external risk cycles. As sterling's global footprint narrows, the credibility and speed of domestic backstops become more decisive than the prospect of discretionary external rescue.

#### 4. Conclusions

The sterling order shows how a former hegemon can survive as a networked secondary currency, sustained less by economic scale than by juridical authority, market infrastructure, and credible crisis management. Once rooted in the imperial gold-standard order, sterling has been repeatedly reconstituted through post-imperial adaptation and now depends on institutional supports – legal credibility, financial “plumbing,” and calibrated statecraft – rather than hegemonic command. It retains niche roles in pricing, contracting, and global funding intermediation, while its backstop architecture and swap-line access embed it in a hierarchical currency order. These mechanisms also generate unequal distributional effects across jurisdictions and within the UK. The article's central contribution is to conceptualise sterling as an infrastructural–juridical regime. Against macro-size or geopolitics-centred accounts, it foregrounds English-law governance and the payment–clearing–collateral nexus as constitutive supports of international currency use. Currency internationalisation is thus treated as a stratified network shaped by state commitments, institutional interoperability, and market beliefs rather than by GDP or trade shares alone. Sterling demonstrates that inherited advantages – above all London's ecosystem and legal credibility – can partly compensate for reduced scale, though only through continuous adaptation. Relative to

the dollar, sterling retains narrower privilege and greater dependence on external creditors; relative to the euro, greater agility is offset by higher exchange-rate volatility and deeper dependence on the dollar system; relative to the renminbi, liberal internationalisation gains from rule-of-law trust but lacks scale.

More broadly, the case locates monetary power in structural embeddedness: whose contracts are governed by English law, whose assets clear in London, and whose collateral circulates through UK-centred infrastructures. These assets constitute infrastructural power beyond balance-of-payments arithmetic or military capability. Yet resilience requires pragmatic adjustment when credibility is strained. Brexit, digitalisation, Asian financial deepening, and geopolitical fragmentation have intensified competitive pressures over infrastructure and jurisdiction. Sterling's ability to continue punching above its weight therefore depends on robust market structure, credible backstops, and cooperative international positioning. On this view, international currency status is a path-dependent equilibrium produced by the interaction of power, institutions, and markets.

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