

ECB reports shift away from US Treasury bonds towards gold

Nick Beams
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The annual report on the international role of the euro published by the European Central Bank (ECB) this week points to the growing fragmentation of the global financial system amid attempts to shift away from dependence on the US dollar.

The most striking figure to emerge from the report was the decline in the proportion of US Treasury bonds in the reserves held by central banks and the increase in the use of gold as a reserve asset.

Gold bullion accounted for 27 percent of all global central bank reserves at the end of 2025, a marked jump from the level of 20 percent at the end of 2024.

Some of this was a result of the rapid increase in the price of gold in 2025 when it rose by 60 percent, which boosted the value of central bank holdings, despite a small slowdown in purchases from more than 1,000 tonnes over the previous three years to 850 tonnes.

However, the trend is unmistakable. Correspondingly, the share of the US Treasury bonds fell from 25 percent to 22 percent over the last year. Dollar-denominated assets remained the highest proportion of reserves, coming in at 42 percent.

Stocks of gold are now the second highest component of reserves, having eclipsed the euro last year.

In her foreword to the report, ECB president Christine Lagarde noted: “Forces of fragmentation are becoming more pronounced. Geopolitical tensions continue to drive strong central bank demand for gold.”

On the financial front, a key turning point was the weaponization of the US dollar after the Russian invasion of Ukraine in February 2022. The assets of the Russian central bank were frozen, and it was excluded from parts of the international payments system. This raised concerns among central banks as they recognized they could be dealt with in the same way if they crossed the US path.

As Nitesh Shah of the investment firm WisdomTree commented: “It’s not just the dollar that was weaponized; the euro, the yen and all G7 currencies were weaponized when Russian central bank assets were frozen. That creates an incentive for other central banks to diversify away from those currencies. Nobody wants to be caught with huge holdings of those currencies and find themselves on the wrong side of any of the G7.”

The ECB report itself pointed to these concerns, noting that “central banks with larger gold purchases... tend to be located in regions facing higher external conflict risks.”

Apart from dollar weaponization, there is another significant reason for the marked shift out of US Treasury bonds. It centers on the growing concern that the US financial position, expressed in the exponential growth of government debt—now at more than \$39 trillion and an annual interest bill of around \$1 trillion—is unsustainable.

The position of the US financial establishment is that the present level of record debt can be sustained, but its rate of increase cannot. All three major global credit rating agencies have downgraded the US credit rating from their top level.

US Treasuries have long been regarded as the safest asset in the world, but that is now being increasingly called into question under conditions where the US financial system has undergone a series of major crises, including the 2008 crash and the freezing of the Treasury market in March 2020 at the start of the pandemic.

Under these conditions, the European financial establishment is seeking to enhance its position against the US, revealing the conflicts between the major imperialist powers that are increasingly coming to the

surface.

This was set out in an ECB blog posted by Lagarde last June.

“We are witnessing a profound shift in the global order,” she wrote. “Open markets and multilateral rules are fracturing, and even the dominant role of the US dollar, the cornerstone of the system, is no longer certain. Protectionism, zero-sum thinking and bilateral power plays are taking their place. Uncertainty is harming Europe’s economy, which is deeply integrated in the global trading system, with 30 million jobs at stake.

“But the shift underway also offers opportunities for Europe to take greater control of its own destiny and for the euro to gain global prominence.”

These themes were taken up in the ECB report. It said that while the international role of the euro had increased moderately in 2025, it had become the leading currency in the “green and sustainable international bond market for the first time.”

Pointing to the persistent geopolitical tensions and the “growing fragmentation of the international monetary system,” it said there was “an opening to enhance its global appeal—provided that European policymakers put words into action,” quoting Lagarde.

The report said that for its currency to play a larger international role—clearly at the expense of the US dollar, though this was not explicitly stated—the euro area had to develop more liquid capital markets, take concrete steps to complete the savings and investment union and establish “a safe and liquid pool of EU public debt.”

These objectives have been laid out for some time, but their implementation has foundered on the national divisions within the European Union—with the stronger economies objecting to financing what they regard as the weaker ones.

The report issued a reassurance that while gold had achieved a significant milestone as a reserve asset, this was not sustainable.

“Going forward, gold faces limitation as an official reserve asset compared with the major fiat currencies” and does not adjust seamlessly to “shifts in international demand for liquidity.”

That may well be true as far as it goes. But this analysis omits one of the central functions of gold as a store of value. Unlike fiat currencies, of which the

dollar and the euro are the two most prominent and which can be created by central banks at the press of a computer button, gold is real value in that it embodies human labor. This property becomes crucial if confidence in fiat currencies is undermined.

And that trend is developing. At present, central banks hold almost as much gold as they did in the days when the international financial system functioned under the Bretton Woods system established in 1944 when the dollar was backed by gold at the rate of \$35 per ounce. Today the price of gold is around \$4,500 per ounce, signifying the precipitous decline in the real value of the dollar since the Bretton Woods system was abrogated with the removal of the gold backing in 1971.

The international monetary system was reconstituted on the basis of the dollar now operating purely as a fiat currency and with Treasury bonds issued by the US forming the central pillar of its operations.

The fact that US debt is being steadily replaced by gold as a store of value, as set out in the ECB report, is a sure sign that the international monetary system is coming under increasing stress. That does not mean it is headed for an immediate crisis, but it does indicate the fundamental trend of developments.



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