

Are we heading toward a generalized depreciation of fiat currencies under the weight of debt?

For several decades, developed economies have operated in an environment where public debt has grown faster than real economic growth. Successive shocks, the financial crisis, the pandemic, unexpected inflation have forced governments to rely heavily on borrowing to stabilize their economies. This trajectory raises a central question: will the growing burden of debt ultimately lead to a generalized depreciation of fiat currencies?

At Selvi & Cie, we believe that answering this question requires separating the emotional reaction to rising debt from the real mechanisms that determine currency values.

A structural rise in debt

The increase in public debt is not a new phenomenon. Since the 1980s, most major economies have seen debt-to-GDP ratios trend upward. This development is driven by structural factors:

- demographic ageing,
- public investment needs,
- rising healthcare and pension costs,
- increased reliance on fiscal policy during crises.

However, there is no universal threshold beyond which a currency is automatically devalued. Japan illustrates this clearly: despite public debt exceeding 250% of GDP, the yen has long been perceived as a safe-haven currency. Currency depreciation is less about the absolute level of debt than about confidence in a country's ability to finance it over time

What really moves a currency

The value of a currency is driven by several key factors:

- **Interest rate differentials:** a currency is generally supported when domestic rates offer higher returns than foreign rates.
- **Relative economic growth:** dynamic economies attract capital flows and support their currency.
- **Current account balance:** surplus countries tend to see their currencies strengthen.
- **Institutional credibility:** political, judicial and monetary stability remain essential pillars.



In other words, rising debt leads to depreciation only if it undermines one or more of these foundations.

The temptation of “inflation”

Historically, many countries have reduced their debt through a discreet yet effective mechanism: allowing inflation to run slightly above interest rates, thereby eroding the real value of debt.

This is not a sudden devaluation, but a gradual, almost structural one.

Today, several signals suggest that this mechanism could re-emerge:

- political willingness to finance the energy transition, military spending and infrastructure.
- central banks less inclined to maintain very high nominal interest rates.
- demographic and wage pressures making inflation more persistent.

This is not a monetary conspiracy, but a macroeconomic reality: when debt becomes too heavy, moderate inflation often appears to be the least socially costly solution.

A generalized depreciation? Probably not. A diffuse erosion? Very possible.

Major fiat currencies evolve relative to one another. If central banks follow broadly similar paths, high debt, moderate growth, massive investment needs, the concept of a “generalized depreciation” loses much of its meaning.

What we can reasonably expect instead is:

- a slow and diffuse erosion of purchasing power.
- increased volatility between major currencies, particularly the dollar, euro, yen and Swiss franc.
- a potentially growing role for real or alternative assets in long-term allocations.

Monetary history shows that currencies do not collapse because they carry debt, but because confidence disappears.

What should investors take away?

The question is not which currency will “fall”, but how to protect portfolios in a world where debt has become a structural feature of the economic landscape.

At Selvi & Cie, we observe that the most resilient portfolios often share:

- sufficient currency diversification around the reference currency.



- increased exposure to real assets, such as real estate or gold.
- allocations to high-quality companies capable of adjusting prices in an inflationary environment.
- active management of currency risk when appropriate.

Conclusion

Are we heading toward a generalized depreciation of fiat currencies?

Probably not in the dramatic sense some imagine.

However, we may be entering a period in which currencies erode more quickly, growth and interest rate differentials become increasingly important, and fiscal discipline emerges as a key criterion of confidence.

As always in monetary matters, it is not the level of debt that matters most, but the credibility and predictability of those who issue it.



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