

**Transcript of the Third Conference on the International Roles of the U.S. Dollar: Opening
Remarks by Governor Christopher J. Waller**

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BETH ANNE WILSON. We're delighted to host you for the next two days and listen to your thoughts on this important topic. I also wanted to thank our colleagues at the Federal Reserve Bank of New York for co-organizing this event and for hosting last year's terrific conference.

Key themes of this conference reflect developments on the ground over the past few years. Importantly, the implications of the international role of the dollar -- for the international role of the dollar of new innovations such as faster cross-border payment systems, of the changing geopolitical and geoeconomic landscape, and of critical backstops, including the swap lines in the FIMA repo facilities. Our impressive set of papers and panels will address these significant issues. The high caliber of presenters and participants is a testament to the quality of the conference, and no more is that true than in our first speaker today.

Governor Christopher Waller has a distinguished career in academics, including as professor and the Gilbert F. Schaefer chair of economics at the University of Notre Dame. He is also a research fellow at Notre Dame's Kellogg Institute for International Studies. He has a prolific publication record and has served as editor for a number of important academic journals. I also know he's an avid traveler, so he has significant international experience. Prior coming to the board, he served as research director for the St. Louis Fed. We've been lucky to have him as a member of the Board of Governors since 2020. Currently, he is playing a key role in overseeing and rolling out the Fed's new instant payment system, FedNow, and has articulated his interest in the international role of the dollar in a recent speech. Given these interests, it is my pleasure to introduce Governor Chris Waller, who will be delivering the opening remarks of the conference and will expand on some of the themes that we'll be hearing over the next day and a half.

[Applause]

GOVERNOR CHRISTOPHER J. WALLER. Well, good morning, everyone. Thanks for coming. Well, thank you, Beth Anne, and thank you for the opportunity to speak to you today. I'd like to welcome everyone to this Third Conference on the International Role of the U.S. Dollar, jointly organized by the Federal Reserve Bank of New York and the Federal Reserve Board.

Now, when people talk about the dollar, they are referring to a number of roles it plays on the world stage, including a physical currency used worldwide, financial assets denominated or redeemable in U.S. dollars, or a settlement unit used in transactions. In all of these, the role of the U.S. dollar in global finance and its economic and financial stability implications are of elementary importance to the Federal Reserve. Participants in the first and second installments of this conference discuss the different roles the dollar plays in the global economy and how the primacy of the dollar benefit not only the U.S. but also the rest of the world. U.S. households, for instance, benefit from lower transactions and borrowing costs, while U.S. businesses and the U.S. government benefit from deep financial markets, including a large pool of creditors and investors. Households and businesses in foreign economies also benefit from access to this broad pool of lenders and investors, which reduces their financing costs and fosters global economic growth.

Now, despite all the benefits that the dollar provides the United States and global economies and the efforts to mitigate some of the financial stability challenges posed by its dominant role, there has, for some time, been commentary predicting that the dollar is destined for demise, potentially an imminent demise. So far, these predictions have not materialized, nor have they come close to materializing. The dollar remains by far the most widely used currency across a variety of metrics, including as a store of value and as a medium of exchange. However, the role of the United States in the world economy is changing, and finance is always changing, so I think it is important for policymakers to regularly consider if and why the dollar's role might change as well.

This conference is a good venue to discuss some of the challenges and opportunities for the international use of the dollar in this ever-changing landscape. For instance, one of those challenges is the

complex relationship between the dollar and geoeconomics, commonly defined as the interplay between economic and geopolitical tools and objectives. Rising geopolitical tensions, sanctions against Russia, China's efforts to bolster usage of the renminbi, and economic fragmentation all can affect the international use of the dollar, most visibly as a store of value and reflected in its use in official foreign exchange reserves.

These same factors can also affect the dollar's role as a medium of exchange, for example, with its use in trade invoicing, global banking, international debt issuance, and foreign exchange transactions. These topics will be addressed by two of our presenters today. Linda Goldberg will present a paper addressing the effects of geoeconomic tensions focusing on the dollar's use in official foreign exchange reserves. Linda and her co-authors find that financial sanctions and geopolitical distance from the United States are associated with lower dollar shares in foreign exchange reserves. Looking more broadly, Ryan Chahrour will present work exploring the potential effects of escalating conflict and protectionism on the dollar's dominance in connection with efforts to promote the use of other currencies, such as the renminbi. And his co-authors find that both sanctions and policies that directly support the international role of the renminbi may reduce the prominence of the dollar if these sanctions and policies are long-lasting.

The shifting cross-border payments landscape, including the rapid growth of digital currencies, could also pose challenges to the dominant role of the U.S. dollar. Angelo Ranaldo will provide an overview of aspects of that payments landscape focusing on the Continuous Linked Settlement payment system, the world's largest multi-currency cash settlement system for foreign exchange, and its role in facilitating cross-border payments by reducing settlement risk. In the panel moderated by Michelle Neal this afternoon, the panelists will take a broader look at the current landscape of cross-border payment systems and how new technologies such as central bank digital currencies and faster transactions could potentially affect U.S. dollar usage and dollar capital flows. Stijn Claessens and his keynote address will expand on similar themes and will pose questions that still need to be explored by researchers engaged on the topic.

While recognizing that the U.S. dollar may face some challenges to its dominance in the future, we as policymakers are also attuned to the potential financial stability challenges that the current broad use of the U.S. dollar can pose for financial systems in the United States and the rest of the world. For example, past experiences show that foreign shocks can transmit to the United States as investors and governments seek a safe haven to protect the value of their assets in periods of stress. Such a flight to the dollar means that dollars are in especially high demand in funding markets around the globe during these episodes, as we saw during the global financial crisis and the financial turmoil at the onset of the COVID-19 pandemic. The Federal Reserve supports the use of the dollars internationally through our liquidity facilities, including the central bank liquidity swap lines, which provide foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions. Scott Davis and Moritz Lenel will discuss the effectiveness of these swap lines in their respective papers. Using different approaches, they find that the availability of U.S. dollars through central bank swap lines mitigates the appreciation of the dollar with respect to other currencies in episodes of stress and reduces deviations from uncovered interest rate parity. This evidence suggests that the central bank swap lines not only ensure that credit continues to flow to U.S. households and businesses but also that these swap lines have effects that enhance financial stability and thus the standing of the U.S. dollar as the dominant global currency.

In closing, I would like to reiterate the importance of understanding how changes in the global landscape may affect the central role of the dollar in the global economy and financial system. I also want to thank you for taking the time to join the discussion over the next two days. This conference brings together world-class researchers, practitioners, and policymakers dedicated to understanding and addressing these important topics. Thank you, and have a good two days. [Applause]