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# The Dollar's International Role

Remarks by

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Thank you to the Global Interdependence Center for the invitation to speak to you today.[1] My subject is the U.S. dollar's primacy in global finance and the global economy, which some feel is under threat as never before. One headline asserts: "Why the Dollar's Reign Is Near an End." Actually, it turns out this threat isn't so new. That headline was from 2011.[2] It is tempting to write off concerns about the dollar's status that never seem to come to pass, but I don't dismiss them. The role of the United States in the world economy is changing, finance is always changing, and I think it is important for policymakers to regularly consider if and why the dollar's role might change as well. That's what I aim to do in these remarks.

When people refer to the dollar and its reserve currency status, they typically mix together a variety of roles that it plays on the world stage. So I would like to start by clarifying these many roles. First, the term "dollar" often refers to physical U.S. currency and its use around the world. However, in certain contexts, it is used to describe financial assets, such as U.S. Treasury securities, that are denominated in and promise redemption in U.S. dollars. Finally, the word "dollar" is used to describe its use as the settlement unit of account in international transactions. I will use the word "dollar" throughout this speech to refer to these various concepts, and I hope it will be clear which one I am referring to as I speak.

For many decades, the U.S. dollar has had an outsized role in the global economy, supported by the size and strength of the U.S. economy, its stability and openness to trade and capital flows, and strong property rights and rule of law. The dollar's international

[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Open Market Committee. I would like to thank Carol Bertaut, Stephanie Curcuru, and Justin Pierce for their support in preparing this text.
[2] See Eichengreen (2011).

role has clear benefits for the United States, lowering transaction and borrowing costs for U.S. households, businesses, and government and widening the pool of creditors and investors. The widespread use of the dollar can help insulate the U.S. economy from shocks from abroad.

The rest of the world also benefits from the dollar's international role. The dollar serves as a safe, stable, and dependable form of money around the world. It serves as a reliable common denominator for global trade and a dependable settlement instrument for cross-border payments. In doing so, it reduces costs of engaging in international transactions for households and businesses including those outside of the United States.

Recent commentary warning of a possible decline in the status of the U.S. dollar raises concerns about the effects of sanctions against Russia, U.S. political dysfunction, the rise of digital assets, and China's efforts to bolster usage of the renminbi. Other commentary has warned of "geoeconomic fragmentation" and whether trade and financial flows could realign in ways that adversely affect the dollar's outsized role. Against this backdrop, it's useful to review whether there has been any change in how the dollar stacks up against the standard measures by which we assess a currency's acceptance as an international currency.

Acceptance as an "international currency" is typically assessed along three dimensions: its use as a store of value, as a medium of exchange, and as a unit of account. Alarmist headlines notwithstanding, the dollar continues to dominate in all three of these measures, and generally by a large margin compared with any other currency.[3]

[3] See Maggiori, Neiman, and Schreger (2019).

The "store of value" dimension relates to the ability to save in a given currency and retrieve those savings in the future without a significant expected loss of purchasing power. A key measure of the confidence in a currency as a store of value is its use in official foreign exchange reserves. At almost 60 percent of global reserves in 2022, the U.S. dollar is by far the dominant reserve currency.[4] The next leading competitor to the dollar is the euro, with a share of roughly 20 percent. Although some have pointed to a decreasing share of reserves held in dollars, the dollar share—though down somewhat from the mid-2000s—is actually little changed from the mid-1990s. And while there has been an increase in the share held in renminbi, that share is trivial at about 2 percent. To the extent that there has been gradual diversification in reserves since the mid-2000s, it has been into a wide range of other currencies, such as Canadian and Australian dollars.

The majority of global dollar reserves are held in U.S. Treasury securities, with the depth and liquidity of the U.S. Treasury market reinforcing the desirability of the dollar as a store of value. Currently, foreign investors hold about one-third of Treasury securities outstanding. There has been a steady decline in this share: Foreign investors held roughly half of Treasury securities outstanding 10 years ago. A major reason for the decline, however, is that over the past decade, the stock of global foreign exchange reserves has grown much more slowly than the stock of Treasury securities outstanding, so foreign official investors are accounting for a declining share. Foreign private investor demand for U.S. Treasury securities, by contrast, has been sustained and has kept pace with the increased issuance in recent years. The roughly one-third of Treasury securities currently held by all foreign investors is now broadly comparable with shares of

[4] See Bertaut, von Beschwitz, and Curcuru (2023).

sovereign debt held by foreign investors in the euro area, the U.K., and Japan.[5] The U.S. benefits from foreign demand for U.S. Treasury securities since it bids up the price of such securities, thereby lowering the interest expense paid on Treasury debt.

Another way to look at the dollar as a store of value for the global financial system is the demand for U.S. dollar banknotes abroad. Determining exactly how much currency is held abroad is challenging, but research suggests that foreign investors hold roughly half of the dollar value of U.S. banknotes outstanding.[6] This share is similar to or a bit higher than for euro banknotes, where recent research estimates suggest that between 30 and 50 percent of euro banknotes are held abroad, primarily in countries that are geographically close to the euro area.[7] "Dollarization" or "partial dollarization" is a global phenomenon that refers to the use of dollars in foreign countries as a substitute for the domestic currency.

Typically, this practice occurs because of persistently high domestic inflation. While foreign citizens are free to use any other currency issued around the world, the dollar is the overwhelming choice for citizens in these countries. Fulfilling foreign demand for U.S. currency allows us to earn seigniorage on banknotes held abroad.

So, by store-of-value measures, the dollar remains the most widely used currency, though its dominance may have edged down slightly over the past couple decades.

The dollar's attractiveness to private investors and businesses is especially apparent in its role as a medium of exchange—that is, in its use in trade invoicing, global banking, international debt issuance, and foreign exchange transactions.

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[5] See Bertaut, von Beschwitz, and Curcuru (2023).
[6] See Bertaut, von Beschwitz, and Curcuru (2023).
[7] See Lalouette and others (2021).

To start with trade invoicing, the dollar is by far the dominant currency. Trade invoicing in dollars means that the terms of the contract are specified in units of the dollar and the dollar is the settlement object for the trade. Dollar invoicing accounts for at least three-fourths of export invoicing in all regions, except in Europe, and over 96 percent in the Americas. Not surprisingly, the euro is the dominant invoicing currency in Europe, but even there, the euro share is only about 50 percent once intra-euro-area trade is excluded.[8] Dollar dominance on this dimension has major benefits for U.S. firms, as it removes exchange rate risk and eliminates the need for complicated and costly hedging strategies when they engage in international trade.

Invoicing dominance is linked to a similarly dominant role in international banking and debt issuance. About 60 percent of international banking loans and deposits are denominated in U.S. dollars. For international debt securities, about 70 percent of bonds issued in a currency other than the issuer's home country currency are denominated in U.S. dollars.[9] These shares have been quite stable over the past 10 to 15 years. Dollar dominance in international banking has benefits for U.S. households and businesses, since it means that foreign banks have strong connections to the U.S. financial system, increasing the amount of credit available in the U.S. and lowering the cost of borrowing. For debt securities, dollar dominance means that when U.S. firms issue debt in markets outside the United States, they can issue in dollars and don't have to bear exchange rate risk. And U.S. investors can get exposure to foreign firms without incurring exchange rate risk.

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[8] See Bertaut, von Beschwitz, and Curcuru (2023).
[9] See Bertaut, von Beschwitz, and Curcuru (2023).

The many sources of demand for U.S. dollars show through to its very high share of foreign exchange transactions, where, according to the latest statistics from the Bank for International Settlements, the dollar remains by far the most commonly traded currency.[10] The size and depth of dollar foreign exchange markets mean the dollar is frequently used as a "vehicle" currency: Even when firms and investors around the globe want to transact in two currencies that don't include the dollar, they typically find that it is easier and less expensive to first conduct a trade between the initial currency and the dollar and then conduct a second trade to exchange the dollars for the second currency.[11]

The final role for an international currency is as a unit of account, and an important measure on this dimension is its use as an "anchor currency" against which other countries may attempt to limit their exchange rate movements. Here, the research finds that the dollar's usage as an anchor currency has increased somewhat over the past two decades. Not including the U.S., economies anchored to the dollar accounted for roughly 50 percent of world gross domestic product (GDP) by 2015. By contrast, the share of world GDP anchored to the euro was only 5 percent (not counting the euro area itself).[12]

To recap, by standard measures of an international currency's use, there has not been any notable erosion in the dollar's dominance over the past couple of decades. Going forward, however, there are potential challenges to the dollar's international status, and some recent developments have the potential to boost the international use of other currencies.

[10] See Bank for International Settlements (2022).
[11] See Devereux and Shi (2013).
[12] See Ilzetzki et al. (2019).

A shifting payments landscape—for example, the rapid growth of digital currencies—could reduce reliance on the U.S. dollar. People often conjecture that cryptocurrencies like Bitcoin may replace the U.S. dollar as the world's reserve currency. But most trading in decentralized finance (DeFi) involve trades using stablecoins, which link their value one-for-one to the U.S. dollar. About 99 percent of stablecoin market capitalization is linked to the U.S. dollar, meaning that crypto-assets are de facto traded in U.S. dollars. So it is likely that any expansion of trading in the DeFi world will simply strengthen the dominant role of the dollar.

A second potential challenge to the dollar could be increased prominence of the euro, the second most widely used international currency. Like the U.S., the European Union (EU) is a large economy with fairly deep financial markets, generally free trade, and robust and stable institutions. Wider use of the euro as a reserve currency may have been held back by the lack of a deep and liquid market for EU debt, though there have been some notable recent developments. During the COVID-19 crisis, the EU issued an unprecedented amount of jointly backed debt, reaching about EUR 400 billion by May 2023. While this is a noteworthy development for the EU, this amount is tiny compared with the $24 trillion outstanding in U.S. Treasury securities.[13]

The continued rapid growth of China and Chinese efforts to boost the use of their currency could make the Chinese renminbi a more attractive competitor to the dollar and increase its international use. Several factors currently weigh against the renminbi as an attractive asset for international investors: It is not freely exchangeable, the Chinese capital account is not open, and investor confidence in Chinese institutions is relatively

[13] See Bertaut, von Beschwitz, and Curcuru (2023).

low.  Recent endeavors by China to overcome these shortcomings include increased efforts to promote renminbi invoicing.  For example, it reached an agreement with Brazil to allow Chinese and Brazilian companies to settle trade in their domestic currencies and has been in discussion with Saudi Arabia to potentially price oil trade in renminbi. However, outside analysts generally view these agreements as symbolic and at most laying the groundwork for potential future use of the Chinese renminbi in very isolated instances.

Some commentators have also argued that sanctions imposed by the United States and its allies on Russia following the invasion of Ukraine could make the dollar less attractive as a reserve currency for the United States's geopolitical adversaries.  In practice, however, U.S. adversaries have few practical alternatives to the dollar, as other prominent reserve currencies—such as the euro, Japanese yen, and British pound—are all issued by close U.S. allies, who also participated in sanctions on Russia.

More generally, some worry that the dollar's role could be threatened by a move toward so-called geoeconomic fragmentation, in which trade and financial flows realign and become restricted within blocs of allied countries.  The formation of a bloc that excludes the U.S.—or even explicitly seeks to counter the United States' role in the global economy—could make some countries less likely to denominate international transactions in dollars.

This scenario sounds alarming, but thus far, trends that appear consistent with fragmentation largely can be explained by specific policy actions.  One example is the dramatic reallocation of U.S.–China trade in recent years, as firms in each country decrease reliance on imports sourced from the other.  While this shift has coincided with a period of heightened geopolitical tensions, the evidence suggests a simpler explanation: firms responding to changes in relative prices, in this case caused by the imposition of reciprocal tariffs by the two countries since 2018. For example, while U.S. imports of tariff-affected goods from China have plunged, imports of goods not subject to tariffs have continued to rise.[14] Despite the reallocation of trade flows across countries, at the end of the day, those trade flows continue to be invoiced mainly in dollars.

A final consideration regarding the international use of the dollar relates to financial stability concerns. In times of global financial stress, investors and governments seek a safe haven to protect the value of their assets and stabilize their own financial markets. When this happens, there is almost always a “flight to the dollar” and heightened demand for U.S. dollar assets. We saw this in 2008 and again in 2020. This is the ultimate vindication that the U.S. dollar is the world’s reserve currency and is likely to remain so—in times of global stress, the world runs to the dollar, not away from it.

To conclude, for the reasons I have laid out here, I do not expect to see the U.S. dollar lose its status as the world’s reserve currency anytime soon, nor even see a significant decline in its primacy in trade and finance. Recent developments that some have warned could threaten that status have, if anything, strengthened it, at least so far.

[14] See Bown (2022).

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