# DISCUSSION NOTE

MONETARY POLICY DIVISION

## N°11

The U.S. Dollar as the Dominant Currency: Analysis and Outlook

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# PREFACE

The Discussion Notes (DN) seek to examine issues that are relevant for monetary and financial policy in Chile and the world. Their goal is to present a discussion regarding the current state of the literature, highlighting the most important implications for the design of monetary and financial policy. For that purpose, the Notes describe the different approaches set forth by frontier research, highlighting the consensus as well as debates that are still open. The DN are elaborated by economists from the Monetary Policy Division and the Financial Policy Division and do not necessarily reflect the official position of the Board of the Central Bank of Chile.

This note reviews the evidence and the recent literature on the emergence and persistence of a dominant currency in the international monetary system, with a focus on the U.S. dollar. Drawing on a historical perspective, it discusses the conditions that facilitated previous transitions between dominant currencies and why the primacy of the dollar has endured despite changes in the relative weight of the United States. It then develops a conceptual framework that organizes the central mechanisms around trade–finance complementarities, network effects, and the provision of safe assets and international liquidity. Finally, building on this framework and historical experience, it assesses contemporary risks—including geopolitical fragmentation and fiscal and institutional tensions—and argues that the most likely scenario is the persistence of the dollar's current dominance, with gradual, marginal adjustments, rather than a rapid and widespread substitution away from the dollar.

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# 1. INTRODUCTION

The debate on the role of the U.S. dollar (hereafter, *the dollar*) as the dominant currency has experienced a notable resurgence since the 2008 global financial crisis. Although the dollar's hegemony—rooted in the post–Bretton Woods financial architecture—has persisted, this period has been characterized by a confluence of factors that challenge the current monetary order. The aftermath of the financial crisis laid the groundwork for closer scrutiny of the stability of a dollar-centered system. Added to this is growing geopolitical fragmentation, manifested in trade tensions and in the use of financial sanctions as an instrument of pressure, which has fueled the discussion of various alternatives and of the potential consequences of "de-dollarization".

This document reviews the evidence and the recent literature on the emergence and persistence of a dominant currency, with a particular focus on the dollar. First, it presents the historical context, illustrating how dominance has shifted over time and which conditions have facilitated transitions between hegemonic currencies. It then organizes the conceptual discussion around the mechanisms that the literature identifies as central: trade–finance complementarities, network effects, and the provision of safe assets and international liquidity. Building on this framework, the document describes the current state of the system, characterized by a persistent gap between the relative economic weight of the United States and the international use of the dollar, and discusses the main challenges and risks—both tangible and latent—that could marginally affect its resilience.

The current state of the literature suggests that there is neither a single explanation for monetary dominance nor a simple criterion for anticipating transitions in the hegemonic paradigm. While history shows that monetary leadership is not permanent, recent experience indicates that it tends to be persistent when it is backed by deep markets, high liquidity, and institutional trust, and when coordination costs hinder the adoption of alternatives. In particular, the evidence suggests that the adjustments observed in recent years in the case of the dollar manifest themselves more as gradual diversification and regionalization than as a rapid and global substitution, in an environment where the mechanisms that sustain the dollar—especially those related to safe assets, payment networks, and funding—remain difficult to replicate on a comparable scale.

In sum, this document provides an integrated view of monetary dominance, combining a historical perspective, theoretical analysis, and a discussion of current risks, with special attention to the implications for open economies. The remainder of the document is organized as follows. Section 2 presents the historical context of the emergence of dominant currencies and the transition to the contemporary dollar-centered order. Section 3 develops the conceptual framework and reviews the literature on the mechanisms that underpin monetary dominance, with an emphasis on trade–finance complementarities, the provision of safe assets, and network effects. Section 4 discusses the future of dollar dominance, assessing its main challenges and risks, the rea-

sons for its persistence and, within that framework, the implications for policy design in emerging economies. Finally, Section 5 synthesizes the findings and presents the conclusions.

The document also includes two complementary boxes: Box A analyzes the lessons learned from the Nixon Shock and its effects on dollar dominance, and Box B discusses the viability of the main candidates to succeed the dollar as the dominant currency.

# 2. HISTORICAL CONTEXT: THE EMERGENCE OF A DOMINANT CURRENCY

A currency's hegemony is not a permanent condition but rather a reflection of a nation's economic, commercial, and geopolitical power in a given period. Consequently, the history of the international monetary system has been marked by a succession of different reserve currencies. This section traces the lineage of the main reserve currencies, starting with the Dutch guilder, which dominated international trade during the seventeenth and eighteenth centuries. Subsequently, with the rise of the Industrial Revolution and the expansion of the British Empire, pound sterling assumed the hegemonic role during the nineteenth and early twentieth centuries, underpinning a global financial system centered on London. Finally, the section analyzes the ascent of the U.S. dollar, consolidated after the two world wars and formalized in the Bretton Woods agreements, which established the framework for the postwar economic order and positioned the dollar as the pillar of the international monetary system to this day.

## 2.1 The Dutch guilder: financial innovation and superior liquidity

Before the rise of the Dutch guilder in the seventeenth century, monetary dominance in Europe was multipolar and shared between the Italian city-states and the Spanish Empire. From the thirteenth century onward, the Florentine florin (1252) and the Venetian ducat (1284) became established as key means of payment for international trade, owing to their stable weight and purity. From the mid-sixteenth century, the discovery of the Americas and Spain's access to vast silver mines drove the spread of the *piece of eight*, or *Spanish dollar*, as the dominant monetary alternative (Earle, 2025; Eichengreen, 2023).

This equilibrium, however, depended on the intrinsic value of the metal, which created persistent problems of liquidity and confidence. The scarcity of precious metals limited the money supply, while debasement by the state, heterogeneous minting, and physical fraud eroded the coins' real value, undermining the certainty required for large-scale transactions.

In this context, the rise of the Dutch guilder during the seventeenth and eighteenth centuries is explained not only by the size of the Dutch economy but also by the institutional soundness of the Bank of Amsterdam and its capacity to provide international

liquidity through a key innovation in payment technology (Coppola et al., 2025; Kindleberger & Aliber, 2005). This innovation was the creation of the bank guilder, a purely book-entry unit of account backed mostly by metallic reserves.

This system eliminated frictions inherent to metallic money—such as transport risk and wear—and, by legal mandate, centralized the settlement of bills of exchange through free transfers on the bank's books, reinforcing its efficiency and the demand for it (Bolt et al., 2023; Schnabel & Shin, 2004). For almost two centuries, confidence in this arrangement sustained the dominance of the Dutch guilder and the stability of the *agio*, the premium between its market value and its nominal value. This greater liquidity and credibility were also reflected in long-term interest rates that, until the late eighteenth century, remained persistently lower in the Netherlands than in the United Kingdom (see Figure 1).

Toward the end of the eighteenth century, confidence in the Bank of Amsterdam began to erode as a result of the multiple loans it granted to the Dutch East India Company (VOC), at a time when the company's finances did not guarantee the repayment of its obligations.[1] The breaking point came in 1780 with the outbreak of the Fourth Anglo-Dutch War. The military conflict caused heavy losses for the VOC: on the one hand, a considerable decline in the volume of international trade and, on the other, the destruction of much of its fleet by the British, which amplified its accounting losses. Despite this, the Bank of Amsterdam continued to lend to the VOC, significantly compromising its balance sheet. According to Bolt et al. (2023), by 1783 the Bank's loans to the VOC already amounted to 71% of its total assets.

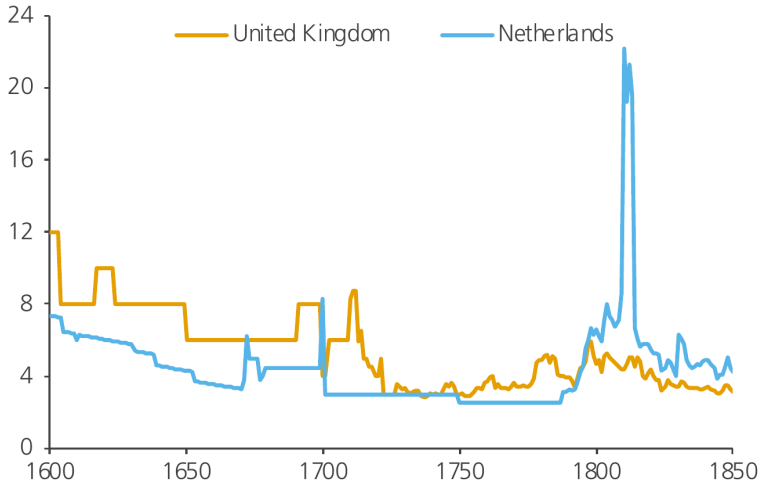
The market responded to news of the VOC's potential insolvency with a significant deterioration of the *agio* and multiple bank runs that substantially reduced metallic reserves, forcing the Bank to operate with negative equity. In 1795, following the invasion by the French revolutionary army, the Bank's accounts were made public, revealing the degree of insolvency under which it had been operating. The *agio* on the bank guilder plunged to nearly −30% and the Dutch guilder definitively lost its prominence in the international financial system (Bolt et al., 2023). Lacking credible fiscal support and after accumulating persistent losses, the Bank of Amsterdam was officially dissolved in 1819.

## 2.2 Pound sterling: the first monetary anchor of the "gold standard"

During the eighteenth century, while the international financial system concentrated much of its activity in the Netherlands, the Industrial Revolution was advancing rapidly in England. Rising productivity, technological innovation, and the proliferation of new ventures expanded opportunities in the financial sector. In this context, the number of

[1] Founded in 1602 by the States General of the Netherlands through the merger of six private companies, the VOC enjoyed a monopoly on Dutch trade in Asia—particularly in spices such as nutmeg, mace, and cloves—and was the first publicly traded company, in addition to operating as a colonial power with its own military and diplomatic capacity (Martins, 2023).

**FIGURE 1 Long-Term Nominal Interest Rates in the United Kingdom and the Netherlands, 1600–1850**
(percent)




Source: Schmelzing (2020).

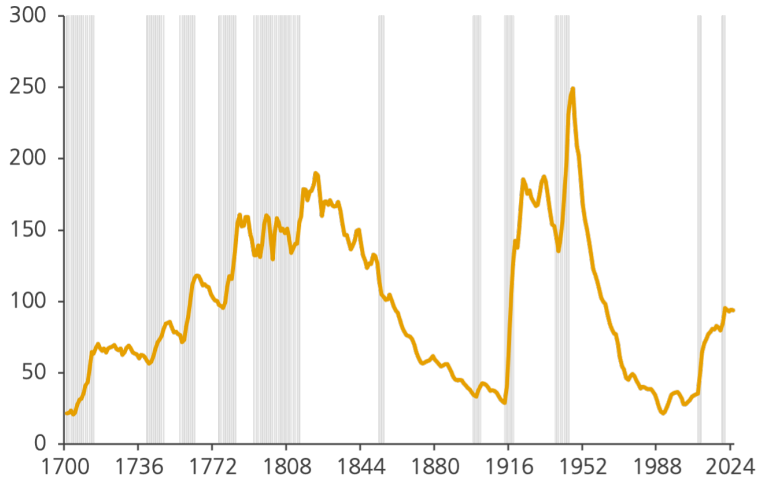
registered banks in England rose from 119 in 1784 to more than 800 in 1810 (Davies, 2002). By the time the Bank of Amsterdam collapsed, rapid industrialization and the expansion of the English financial system had positioned pound sterling as the leading candidate to succeed the Dutch guilder as the dominant currency.

The consolidation of pound sterling, however, was not immediate. During a transition period, the international financial system oscillated between the pound and the French franc. This competition was resolved after the Napoleonic Wars, when the British victory, together with political instability in France, weakened French fiscal capacity and established English public debt as the main risk-free asset internationally (Bordo & White, 1991; Coppola et al., 2025). As a result, demand for pounds became entrenched and the pound's dominance became persistent.

Confidence in pound sterling was reinforced by a set of financial reforms aimed at sustaining demand for it. On the one hand, the British government made deliberate efforts to strengthen its credibility as a debtor, especially in times of war (Bordo & White, 1991). This credibility rested on the state's capacity to absorb significant increases in public debt without losing access to financing, as suggested by the evolution of British public sector net debt (see Figure 2). On the other hand, the formal adoption of the pound's convertibility into gold led to the Bank Charter Acts of 1833 and 1844, which established the Bank of England's (BoE) monopoly on the issuance of legal tender banknotes, guaranteed the backing of the money supply with gold reserves, and formalized the discount window.[2] By the mid-nineteenth century, the BoE had already

[2]Through the discount window, the BoE injected liquidity by converting private debt instruments into pounds sterling. By providing liquidity of last resort, this tool facilitated market coordination around the pound and fostered the deepening of the market for private debt denominated in pounds sterling (Xu, 2022).

**FIGURE 2 United Kingdom: Public Sector Net Debt (*)**
(percent of GDP)




(*) Shaded areas indicate historical episodes associated with significant increases in public debt, including the War of the Spanish Succession (1701–1714), the War of the Austrian Succession (1740–1748), the Seven Years' War (1756–1763), the American War of Independence (1775–1783), the French Revolutionary and Napoleonic Wars (1792–1815), the Crimean War (1853–1856), the Boer War (1899–1902), World War I (1914–1918), World War II (1939–1945), the subprime crisis (2008), and the COVID-19 pandemic (2020).
Source: Office for Budget Responsibility.

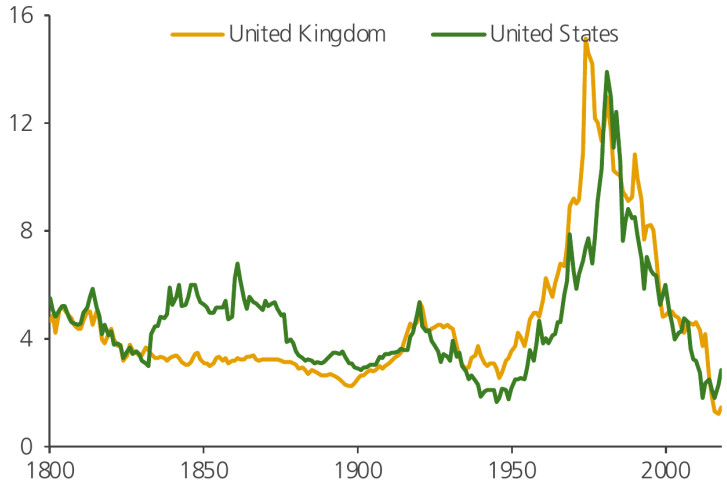
consolidated its role as lender of last resort and as the main backstop of the private bill market (Coppola et al., 2025; Davies, 2002; Eichengreen, 2011).

The pound's dominance was strengthened organically through the BoE's operations in international markets, particularly during episodes of weak economic activity. In those periods, the BoE expanded its foreign lending to sustain liquidity and the demand for pounds, while signaling to other central banks the need to act in a coordinated manner. The BoE's leadership and its coordination efforts contributed to the stability and credibility of the *gold standard* (Eichengreen, 1996). Taken together, the combination of an expanding economy, a central bank capable of acting as lender of last resort, and a deep and liquid public debt market made London the center of the international financial system.

## 2.3 The interwar period and the rise of the dollar

The stability of the *gold standard* in the period before World War I reflected a balance between economic and political factors. In normal times, the tacit leadership of the United Kingdom and the BoE provided the institutional framework that sustained international coordination around the pound. During episodes of stress, the credibility and liquidity of British public debt allowed the BoE to obtain external financing at low cost to defend its reserves and preserve both the pound's dominance and the stability

**FIGURE 3 Long-Term Nominal Interest Rates in the United Kingdom and the United States, 1800–2018**
(percent)




Source: Schmelzing (2020).

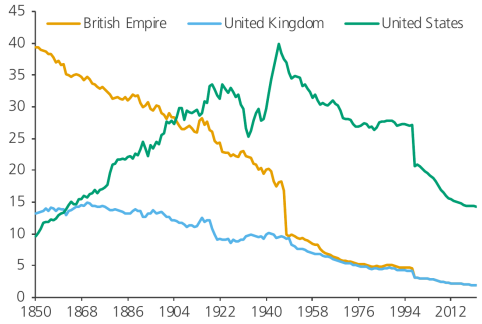
of the system (Eichengreen, 1996). This combination of monetary coordination and financial depth translated into relatively low and stable long-term interest rates for the United Kingdom during the nineteenth and early twentieth centuries, as seen in the comparison with other advanced economies such as the United States (see Figure 3).

This equilibrium began to erode with the succession of geopolitical conflicts that culminated in World War I. The deterioration of the interwar monetary system and the decline of pound sterling reflected both the weakening of British economic fundamentals and a growing lack of cooperation among the major financial powers. The stagnation of the United Kingdom and the reduction of its weight in world output (see Figure 4) contrasted with the rise of the United States. This process was accelerated by the war, which disrupted international trade and allowed the dollar to expand in debt and trade credit markets (see Figure 5), transforming the United States from a debtor into a global net creditor (Carney, 2019; Chitu et al., 2014; Gopinath & Stein, 2021).

From a geopolitical standpoint, the interwar period was marked by the absence of clear monetary leadership. Unlike the United Kingdom in the nineteenth century, the United States initially acted as a "reluctant hegemon": the Federal Reserve absorbed gold inflows instead of recycling them, exporting deflationary pressures to the rest of the world and halting capital flows to Europe from 1928 onward. This lack of coordination contributed to a global liquidity shortage and amplified the severity of the Great Depression, in a context in which there was no lender of last resort willing to provide countercyclical liquidity on an international scale (Carney, 2019; Gourinchas, 2019).

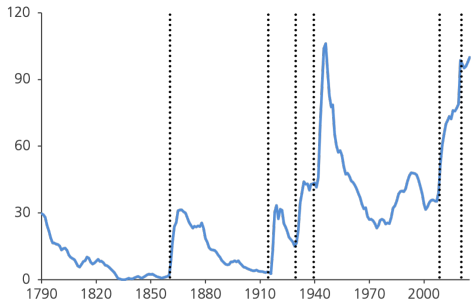
The system's fragility was compounded by the bipolar nature of the monetary order of the 1920s. The coexistence of pound sterling and the dollar as reserve assets generated systemic instability, associated with frequent portfolio reallocations between the two currencies and the lack of coordination between their issuers (Nurkse, 1944). This

**FIGURE 4 Share of the British Empire, the United Kingdom, and the United States in World GDP (*)**
(percent)




(*) Includes India. For some countries, data were completed by linear interpolation. GDP measured at constant 2011 prices.
Source: Authors' calculations based on the Maddison Project Database 2023. For dates, Encyclopaedia Britannica and Oxford Reference, supplemented with information from the websites of the British Government, the British Parliament, and the U.S. Department of State.

**FIGURE 5 United States: Federal Debt Held by the Public (*)**
(percent of GDP)




(*) Data through 1939 correspond to the end of the calendar year; from 1940 onward, to the end of the fiscal year. Dotted lines mark, in order, the start of the Civil War (1861), World War I (1914), the Great Depression (1929), World War II (1939), the subprime crisis (2008), and the COVID-19 pandemic (2020).
Source: Congressional Budget Office.

process culminated in the 1931 crisis of confidence, precipitated in part by France's liquidation of its sterling reserves and by mounting doubts about the United Kingdom's fiscal capacity, which forced the abandonment of the *gold standard* and the devaluation of the pound, persistently damaging its reputation as a reserve asset (Clayton et al., 2024; Farhi & Maggiori, 2018). At the same time, policy mistakes in the United States—including the Federal Reserve's adherence to the real bills doctrine and its refusal to rediscount illiquid bankers' acceptances—limited the dollar's ability to play a stabilizing role during the shocks of the 1930s (Eichengreen, 2023; Rogoff, 2025).

## 2.4 The ascent of the dollar and the transition to the contemporary monetary order

The transition from pound sterling to the U.S. dollar was neither abrupt nor linear; rather, it was marked by a prolonged period of monetary bipolarity. Even after abandoning the *gold standard*, the pound managed to regain part of its relevance during the 1930s, in a context of financial instability in the United States and the devaluation of the dollar in 1933. As a result, both currencies coexisted as dominant currencies until the outbreak of World War II (Chitu et al., 2014; Krugman, 1984).

The war was the definitive turning point. While the conflict irreversibly weakened the United Kingdom's financial position, the United States emerged as the leading economic power, accounting for about 36% of world GDP by 1950 (Rogoff, 2025). This

asymmetry was institutionalized at the 1944 Bretton Woods conference, where the dollar was established as the anchor of the system: its convertibility into gold was set at $35 per ounce, while other currencies were pegged to the dollar, consolidating its role as the main international reserve and intervention currency (Aiyar et al., 2023; Obstfeld, 2025).

The Bretton Woods regime granted the United States exceptional room for maneuver. As the dollar became established as the main reserve asset and international means of payment, the country was able to finance persistent external deficits by issuing debt denominated in its own currency, which the rest of the world absorbed as a safe asset—giving rise to the so-called *"exorbitant privilege"* (Gourinchas & Rey, 2007; Gourinchas et al., 2019). This asymmetry meant that, while other economies had to adjust their policies to sustain their exchange rate parities, the United States enjoyed greater monetary autonomy, reinforcing the dollar's centrality in global trade and finance (Rogoff, 2025).

Nevertheless, the system contained a structural fragility. To meet the growing global demand for liquidity, the United States had to run sustained external deficits, which expanded its dollar liabilities far beyond its gold reserves, gradually undermining the credibility of the fixed parity (Triffin, 1960). This *Triffin dilemma* intensified during the 1960s owing to expansionary fiscal and monetary policies associated with spending on the Vietnam War and the *Great Society* programs, generating inflationary pressures and an excess of dollars abroad (Aiyar et al., 2023; Farhi et al., 2011). As Europe and Japan recovered and the relative share of the United States in world output declined, the dollar's parity became unsustainable (Gourinchas, 2019; Rogoff, 2025).

The crisis came to a head in the early 1970s, when several countries—France in particular—began systematically converting their dollar holdings into gold, straining U.S. reserves (Farhi & Maggiori, 2018). In August 1971, President Richard Nixon unilaterally suspended the dollar's convertibility into gold, a measure known as the "Nixon Shock", together with temporary controls on prices and trade (Obstfeld, 2025; World Economic Forum, 2025). After failed attempts to realign parities, the Bretton Woods system collapsed definitively in 1973, giving way to a regime of mostly floating exchange rates. Even so, the dollar's international centrality was not only maintained but reinforced.[3]

In the new fiat order, the dollar's international position ceased to rest on a formal commitment to gold convertibility and came to depend on the institutional soundness of the issuing economy. In particular, the depth, liquidity, and openness of U.S. financial markets, together with the federal government's capacity to issue debt widely accepted as a safe asset, sustained global demand for dollar-denominated assets. The financial liberalization of the 1980s and 1990s and the development of the eurodollar market broadened the dollar's use as an international funding and settlement currency, reinforced by network effects and by the concentration of financial intermediation around

[3]Box A analyzes the effects of the "Nixon Shock" and discusses historical parallels with the current international monetary environment.

dollar-denominated assets (Eichengreen, 2023; Gourinchas, 2019; Gourinchas & Rey, 2007).

This context gave rise to a contemporary reformulation of the Triffin dilemma. Whereas under Bretton Woods the central constraint stemmed from the availability of gold, today the tension arises from the gap between the growing global demand for dollar safe assets and the fiscal capacity of the United States to supply them on a sustained basis (Coppola et al., 2025). This gap becomes more relevant in an environment in which the relative share of the United States in world output and trade has declined (Aiyar et al., 2023; Obstfeld, 2025). Although the dollar retains its dominant position, a prolonged expansion of public debt could, under certain circumstances, undermine confidence in these assets or induce adjustments through inflation, tighter financial conditions, or greater diversification of international portfolios (Gourinchas et al., 2019; Rogoff, 2025).

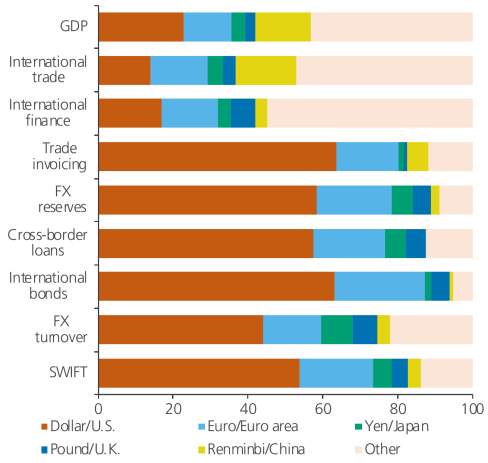
Finally, unlike the Bretton Woods regime, the current monetary system operates with high capital mobility and deep financial integration. In this environment, dollar dominance, together with the particular characteristics of each economy (see Section 4.3), has intensified the international transmission of the Federal Reserve's monetary policy and has especially exposed emerging economies to a *global financial cycle* (Bruno & Shin, 2015; Rey, 2013). In practice, this limits monetary autonomy even under flexible exchange rate regimes, which has led to a reinterpretation of the classic trilemma as a dilemma between financial stability and room for maneuver in monetary policy (Gourinchas, 2019; Rogoff, 2025). These dynamics suggest that the persistence of a dominant currency stems not only from historical institutional arrangements but also from general economic mechanisms linked to the provision of liquidity, financial intermediation, and network externalities.

## 2.5 Dollar dominance in the current context

Beyond its role in reserves and trade, the dollar continues to dominate multiple spheres of the international economic and financial system, while the share of alternative currencies remains limited. Figure 6 summarizes this asymmetry: the dollar's share in international uses systematically exceeds the share of the United States in global real and financial aggregates. For example, in trade invoicing the dollar accounts for more than 60% of international trade, even though the United States represents less than 15% of world trade and about 25% of global GDP. In finance, the dollar accounts for most reserves (58%), cross-border loans (57%), and international bonds (63%), and it also leads in foreign exchange turnover (44%) and SWIFT transactions (54%) (Emter et al., 2024).

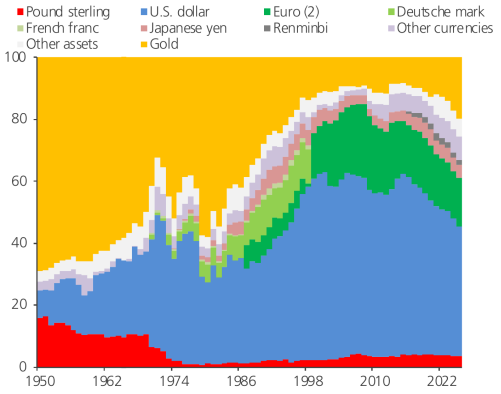
Dollar invoicing and funding sustain the demand for liquidity and safe assets in that currency, reinforcing market depth and the incentives to keep using the dollar in offshore transactions (Gopinath & Itskhoki, 2022; Gopinath & Stein, 2021). Thus, even as the relative share of the United States in the world economy has declined, the dollar's usefulness in offshore transactions can remain high if no alternatives emerge that

**FIGURE 6 Share in the Global Economy and Currency Composition (*)**
(percent, as of 2023)




(*) Foreign exchange turnover data are for 2022, and SWIFT data are for 2024. For details, see the online annex, Section 2.4, of the IMF's 2025 External Sector Report, summarized in Appendix A. SWIFT data are from Cerutti et al. (2025).
Source: IMF (2025) and Cerutti et al. (2025).

**FIGURE 7 Composition of Global International Reserves (1)**
(percent)




(1) The calculation assumes that currency shares in total foreign exchange reserves are the same as in allocated reserves. (2) Euro includes the European Currency Unit (ECU).
Source: Authors' calculations based on Eichengreen et al. (2017) and the IMF.

combine, on a global scale, market depth, financial openness, and the provision of safe assets. Consistent with this, recent evidence on international debt securities suggests that the dollar's primacy is better described as a pattern of dollarization "waves" than as a monotonic trajectory (Pradhan et al., 2025).

Figure 7 complements this evidence from a historical perspective. From 1950 onward, the dollar's share increases steadily until the breakdown of Bretton Woods in 1971, in parallel with the declining relevance of pound sterling and gold. After the volatility of the 1970s, the dollar's share consolidates and rises again from the early 1980s until the mid-2010s, in line with the deepening of the dollar-based international financial system.

More recently, the dollar's share of reserves has moderated relative to its late-1990s peaks, without a direct substitution toward its traditional competitors. The evidence points instead to a gradual diversification toward "nontraditional" currencies of advanced economies (and, to a lesser extent, toward the renminbi), which has been characterized as a *stealth erosion* of dollar dominance (Arslanalp et al., 2022, 2024). This aggregate decline should be interpreted with caution, as it may be driven disproportionately by the decisions of a small subset of countries with large portfolios (Goldberg & Hannaoui, 2024). Overall, this pattern is consistent with reserve management strategies aimed at diversification and yield-seeking, as transaction costs fall and the liquidity of instruments in those currencies increases.

In sum, the evidence suggests that dollar dominance continues to rest on a combination of scale, liquidity, and network effects that makes it difficult to replicate in the short term (Bertaut et al., 2025; Rogoff, 2025). Nevertheless, this very centrality implies that changes in the geopolitical environment, in the provision of safe assets, or in risk perceptions could weaken its resilience. The next section develops a conceptual framework for understanding how a currency's dominance arises and dissolves in the international context. These lessons will then allow Section 4 to examine the risks and challenges facing the dollar's current dominance and possible future scenarios.

# 3. THEORETICAL FRAMEWORK

This section reviews the literature on the emergence and persistence of a dominant currency in the international monetary system. The aim of this literature is to rationalize the lessons learned about the hegemony of certain currencies and the transitions between them. This review will subsequently enable a forward-looking analysis of dollar dominance. It establishes that monetary dominance results from the interaction of multiple, mutually reinforcing mechanisms, which the recent literature organizes around three channels: (i) trade–finance complementarities, (ii) the provision of safe assets and international liquidity, and (iii) the network effects underlying both. These mechanisms interact endogenously, giving rise to equilibria with increasing returns and path dependence in which a currency attains and sustains a dominant global role.

## 3.1 The trade–finance nexus: synergies, complementarities, and network effects

From this perspective, monetary dominance emerges from decentralized invoicing, funding, and portfolio allocation decisions that generate externalities and reinforce one another. The currency used as the unit of account in trade tends to coincide with the one demanded as a store of value, insofar as each function endogenously strengthens the other.

A central element of this literature is the so-called "*dominant currency paradigm*" (dominant currency pricing, DCP). The evidence shows that the majority of world trade is priced in a dominant currency—mainly the dollar—in contrast with traditional models of producer currency pricing or local currency pricing. Under DCP, export and import prices are sticky in dollars, the terms of trade respond weakly to bilateral exchange rates, and exchange rate pass-through depends fundamentally on the exchange rate against the dollar (Gopinath et al., 2020). As a result, a depreciation of the local currency raises import prices and reduces import demand, while exports respond little in the short run. External adjustment therefore occurs mainly through import compression. Moreover, a broad-based appreciation of the dollar reduces the volume of world trade among countries other than the United States, generating asymmetric spillovers from U.S. monetary policy to the rest of the world. Gopinath and Itskhoki (2022) show

that this equilibrium is sustained by endogenous mechanisms, in particular the use of dollar-invoiced imported inputs and strategic complementarities in price setting, which generate network effects and marked inertia in the choice of invoicing currency.

Along the same lines, Gopinath and Stein (2021) show that invoicing in a dominant currency increases the demand for safe and liquid assets denominated in that currency. When a significant share of imports is priced in dollars, households and firms value holding dollar assets, either as a currency hedge or to preserve their purchasing power relative to the prices relevant for trade. This greater demand lowers the cost of dollar funding, reinforcing firms' incentives to borrow and set prices in that currency.

From a macroeconomic perspective, Adler et al. (2020) document that the dollar's dominance in trade invoicing and corporate financing alters the mechanisms of external adjustment. Under dominant currency pricing, trade prices and quantities respond mainly to the exchange rate against the dollar, with high pass-through to domestic prices and a limited short-run response of exports. Consequently, the initial adjustment occurs almost exclusively through import compression. When dollar financing is incorporated, the authors show that exporters have a natural hedge between revenues and liabilities, whereas importers with foreign currency debt face mismatches that amplify the contraction of their imports after a depreciation. Macro and micro evidence confirms that these effects weaken the export boost from the exchange rate and reinforce the contractionary nature of depreciations, underscoring the dollar's central role in the global transmission of shocks.

The link between trade and finance also operates through trade finance. Chahrour and Valchev (2022) emphasize that, when a currency is widely accepted and liquid, its use in trade finance reduces operating and hedging costs associated with collateral and with the acceptance of the currency as a means of payment, increasing its appeal to issuers and investors and deepening financial markets in that denomination.

From the perspective of coordination and strategic competition, Mukhin (2022) shows that these complementarities also manifest themselves in the choice of invoicing currency in international trade. When competitive performance depends on relative prices, coordinating the currency of denomination with suppliers and competitors reduces the volatility of those prices and exposure to exchange rate risk, consolidating an equilibrium in which the dominant currency is used disproportionately in international invoicing.

Firm-level micro evidence is consistent with these mechanisms. Amiti et al. (2022) document that currency choice responds simultaneously to *strategic complementarities*—alignment with the currency used by competitors—and to *real hedging*—alignment between the currency of the costs of imported inputs and that of export revenues. On the one hand, pricing decisions are strongly interrelated among competitors, which induces firms to coordinate their invoicing currency to stabilize relative prices and preserve market share, a behavior that is particularly marked among larger firms with greater market power. On the other hand, the cost structure introduces additional synergies: firms that rely heavily on imported inputs, especially those denominated in dollars, tend

to invoice their exports in the same currency to align costs and revenues and reduce the volatility of their margins. The interaction between these mechanisms gives rise to an equilibrium with feedback, in which the invoicing currency determines short-run exchange rate pass-through, which in turn reinforces the choice of that currency, contributing to the persistence of dominant currencies such as the dollar globally and the euro regionally.

Taken together, this literature shows that a currency's dominance in international trade arises from the interaction of invoicing, funding, and strategic competition decisions that generate persistent externalities and network effects. This interaction increases the demand for financial assets denominated in that currency, which serve both as hedges and as stores of value. In turn, greater demand deepens the liquidity of financial markets in that denomination and lowers the cost of funding, strengthening the incentives to use the dominant currency in commercial and financial transactions. In this way, the trade–finance nexus forms a feedback mechanism that links currency choice in international trade with the provision of safe assets and global liquidity, serving as a natural bridge to the literature that analyzes the role of the dominant currency as an international provider of safe assets.

## 3.2 Provision of safe assets and international liquidity

This channel emphasizes the role of safe assets and market liquidity in the internationalization of a currency. From this perspective, a currency attains dominant status when the issuing economy supplies instruments that are widely accepted as a safe store of value and as collateral, especially during episodes of financial stress. The depth and liquidity of markets denominated in that currency reduce liquidity premia, facilitate financial intermediation, and broaden the range of transactions—commercial and financial—conducted in it. In turn, the provision of safe assets endogenously reinforces the currency's use as a unit of account and for debt denomination, consolidating its centrality in global portfolios and its role as a benchmark for international prices, contracts, and financing.

This mechanism is developed empirically by Gourinchas and Rey (2007), who analyze the evolution of the U.S. external balance sheet and explain dollar dominance in terms of its role as the global provider of safe and liquid assets. The authors argue that the United States has transitioned from "World Banker"—in the tradition of Kindleberger (1965)—to "World Venture Capitalist": it issues safe, liquid, low-yield external liabilities (such as Treasury bonds and deposits) and finances riskier, higher-return foreign investments (in particular, equity and foreign direct investment). This structure underpins the *exorbitant privilege*, which can be decomposed into a return effect—linked to the premium that the rest of the world pays for liquidity and safety—and a composition effect, derived from a structural long position in risky assets and a short position in safe assets. The authors also highlight the valuation channel, whereby the dollar denomination of most external liabilities and the foreign currency denomination of a significant share of assets turn the exchange rate into an automatic stabilizer, fa-

cilitating external adjustment without requiring large trade surpluses.

Gourinchas et al. (2019) extend this analysis by characterizing the United States as a "global insurer". Given the asymmetric structure of the U.S. external balance sheet, during global crises the appreciation of the dollar and the fall in the value of risky assets generate wealth transfers from the United States to the rest of the world, acting as an international insurance mechanism. In this context, the authors reformulate the Triffin dilemma, emphasizing the tension between the growing global demand for safe assets and the fiscal capacity of the United States to back them credibly. They also show that U.S. external adjustment increasingly occurs through the valuation channel, reinforcing the importance of the dollar denomination of liabilities and the currency exposure of assets.

The emphasis on the provision of safe assets also highlights the tensions and instabilities inherent in this arrangement. In this regard, Farhi and Maggiori (2018) develop a theoretical model that formalizes the fragility associated with the global provision of reserve assets by a hegemonic country, identified with the United States. In their analysis, the issuer meets the international demand for safe assets but faces a limited commitment problem. Ex ante, it benefits from the exorbitant privilege reflected in the premium that investors pay for the safety of its liabilities; ex post, however, and especially in times of crisis, an incentive arises to devalue the currency in order to reduce the real value of its external obligations. This framework rationalizes the Triffin dilemma by showing the structural tension between the expansion of the supply of safe assets in a growing global economy and the deterioration of the issuer's fiscal capacity or credibility that this expansion entails.

In a complementary vein, He et al. (2019) develop a theoretical model that explains why certain sovereign bonds are perceived as safe assets. Their central contribution is to show that safety is not an intrinsic property of a bond but an endogenous and relative attribute: an asset is safe when investors expect others to demand it as well, which allows the issuer to roll over its debt without frictions. Consequently, safe-haven status depends both on the issuer's fundamentals relative to alternatives and on the coordination of expectations among investors.

The size of the debt market, in turn, plays a dual and nonlinear role. When global demand for safe assets is high, a larger volume of debt reinforces safety by providing depth and liquidity; in low-demand scenarios, by contrast, a large stock can amplify rollover risk. This asymmetry, combined with the coordination of expectations, gives rise to multiple equilibria—ranging from configurations with several safe assets to highly concentrated situations—and endogenously generates the "*negative beta*" property typical of these assets, offering a coherent explanation of the dominant role of issuers such as the United States.[4]

Recent work integrates these elements into a unified framework for understanding dollar hegemony, linking financial liquidity, global demand for safe assets, asset valu-

[4] A "negative beta" characterizes a truly safe asset: its price rises when aggregate fundamentals deteriorate or adverse global shocks occur, providing insurance against adverse events.

ation, and fiscal sustainability (Coppola et al., 2025). From this perspective, monetary dominance arises from endogenous processes in which the depth and liquidity of financial markets—in particular, of debt denominated in the dominant currency—play a central role. These mechanisms connect with the global financial cycle through international demand for dollar safe assets. Jiang et al. (2020) show that global investors earn a convenience yield from holding safe dollar debt, which links the value of the dollar to the price of safety and explains its appreciation during episodes of stress, with contractionary effects on global activity. The empirical relevance of this channel is confirmed by Jiang et al. (2021), who document that a substantial fraction of this convenience premium is associated with dollar denomination and is closely related to exchange rate movements.

The capacity to supply safe assets on a global scale ultimately rests on a fiscal foundation that—like the mechanisms above—is neither absolute nor fixed, but depends on comparison with other issuers and on the coordination of expectations among investors. Chen et al. (2025) show that dominant currency issuers have been able to issue debt in volumes that exceed the present value of their future primary surpluses, reflecting a premium associated with their role as global providers of safe assets. This "expanded fiscal capacity", however, is not permanent: when the issuer's fiscal fundamentals deteriorate in relative terms, its debt tends to be re-anchored to the strict backing of its future surpluses.

Taken together, this literature suggests that a currency's dominance in the international monetary system cannot be understood in terms of a single mechanism, but rather as the result of the interaction among trade–finance complementarities, network effects, and the provision of safe assets backed by the issuer's fiscal capacity.

# 4. THE FUTURE OF DOLLAR DOMINANCE

Building on the lessons drawn, this section seeks to establish likely scenarios for dollar dominance in the international monetary system. It identifies the challenges and risks to the dollar's hegemony, as well as the reasons that make it likely to retain its status, at least in the short and medium term. It also discusses how the dollar has affected the monetary and financial policies of emerging economies and what the potential effects of "de-dollarization" would be.

## 4.1 Challenges and risks

The main factors challenging the dollar's hegemony can be grouped into two sets. On the one hand, there are *tangible* risks associated with economic policy decisions and with geopolitical and geoeconomic tensions—including the greater use of financial sanctions and the reorganization of trade and financial ties along lines of political affinity. These are already affecting invoicing, portfolio, and international funding patterns. On the other hand, there are *latent* risks linked to more persistent structural

trends—fiscal, institutional, and in relative power—that could materialize if there is a prolonged deterioration in confidence in dollar-denominated assets.

### 4.1.1 Tangible risk factors

A first tangible factor is the risk of financial coercion through sanctions and, more generally, the use of geoeconomic instruments. Recent evidence suggests that, since 2021, trade invoicing patterns have shown growing polarization along geopolitical lines: economies that are relatively less aligned with the United States and the euro area tend to replace the dollar and the euro with the renminbi, local currencies, or third-country currencies (Boz et al., 2025). These adjustments are consistent with incentives to reduce exposure to restrictions on access to the dollar-dominated international financial system. In particular, even the anticipation of sanctions can operate as an "implicit tax" on holding dollar assets, reducing demand for them ex ante and eroding the privilege associated with their convenience yield (Bianchi & Sosa-Padilla, 2025).

The evidence further suggests that these changes can materialize quickly when financial conditions facilitate them. For example, the use of the renminbi as an invoicing currency can increase over short horizons when dollar liquidity constraints coincide with preexisting infrastructure—such as swap lines—that reduces adoption costs (Benguria & Novy, 2025).

In line with growing political and economic fragmentation, the risk of financial sanctions has encouraged some central banks to diversify their reserves away from the dollar and the euro, reinforcing the demand for gold and contributing to the recent increase in its share of official reserves (Mayer, 2024). Although, as discussed in Box B, this phenomenon combines valuation effects and net purchases, gold accumulation can be interpreted as a search for assets free of counterparty risk in an environment of greater geopolitical fragmentation (Arslanalp et al., 2023).

Finally, risks associated with U.S. economic policy can amplify these incentives, particularly when uncertainty increases about the stability of the rules governing international trade and investment, or when the expanding supply of Treasuries tests the rest of the world's willingness to keep paying a premium for liquidity and safety. Along these lines, recent episodes suggest that the dollar's role as a safe-haven asset may become more sensitive to changes in the perceived safety and liquidity of dollar assets, through variations in its convenience yield (Jiang, Krishnamurthy, Lustig, et al., 2025; Jiang, Richmond, & Zhang, 2025).

### 4.1.2 Latent risk factors

The *latent* risks to dollar dominance are more structural in nature and relate to the fiscal and institutional trajectory of the United States. In particular, the capacity to supply safe assets—especially Treasuries—rests on perceptions of fiscal sustainability, political stability, and monetary policy independence, which are central elements of the safe asset provision channel discussed in Section 3. In this context, the accumulation of deficits and rising public debt could strain the *"exorbitant privilege"*. Although this sta-

tus allows the United States to borrow cheaply in its own currency, it also increases its exposure to changes in the rest of the world's willingness to absorb dollar-denominated assets (Eichengreen, 2011; Nelson & Weiss, 2022; Rogoff, 2025). A relevant nuance is that part of this privilege can be interpreted as a valuation of dollar-denominated liabilities that exceeds what fiscal fundamentals alone can justify, in particular the present value of future surpluses. In that case, a persistent deterioration of those fundamentals could trigger an abrupt reallocation toward a more "fundamental" valuation of that debt (Chen et al., 2025).

A complementary dimension is the so-called *Triffin dilemma*. As occurred during the collapse of Bretton Woods, the very process of providing liquidity to the world through external deficits and the issuance of dollar liabilities can, over time, undermine confidence in the dominant currency (Triffin, 1960). In its modern formulation, the *Triffin dilemma* holds that the provision of safe assets could shift the issuer from a relatively stable zone to a more fragile one, where confidence becomes more sensitive to expectations and can give rise to self-fulfilling crises (Farhi & Maggiori, 2018). In a high-debt environment, the possibility of eroding the real value of obligations through inflation or persistently loose financial conditions becomes a central concern in the discussion of monetary dominance (Eichengreen, 2011; Rogoff, 2025). In particular, a weakening of the Federal Reserve's credibility, whether due to political pressure or to prolonged difficulties in anchoring inflation, would be especially costly given the centrality of Treasuries and other dollar-denominated assets in global portfolios (Clarida et al., 2025; Rogoff, 2025).

Lastly, an erosion of institutional credibility can reinforce dynamics of domestic polarization, for example through recurring episodes of negotiation over the debt ceiling, and fuel doubts about the stability of dollar-denominated assets. Qualitative evidence suggests that part of the recent concern has shifted from macroeconomic variables to institutional elements, including the rule of law, the risk of asset freezes, and regulatory predictability, which could gradually reduce demand for these assets (Castelli, 2025). In this context, although there is no imminent "tipping point", the fiscal and institutional backdrop is the main channel through which pressures toward greater diversification and monetary fragmentation could intensify (Castelli, 2025; Norrlöf, 2023; Rogoff, 2025).

**Box A: The consequences of the "Nixon Shock" for dollar dominance**

The debate on the future of the dollar as the dominant currency has a clear parallel in the early 1970s, when the dismantling of Bretton Woods fueled predictions of the dollar's decline. In the following decades, however, the U.S. currency not only retained its status but grew stronger (Eichengreen, 2011; Rogoff, 2025). Revisiting that episode helps put the current discussion in perspective.

In the early 1970s, the United States faced significant imbalances: spending on

Vietnam and the "Great Society", accompanied by expansionary monetary policies, raised inflation and led to unprecedented trade deficits (Farhi & Maggiori, 2018; Rogoff, 2025). With the upcoming election in mind, Nixon pressured the Federal Reserve to err on the side of inflation (Rogoff, 2025). At the same time, figures such as Charles de Gaulle denounced the "exorbitant privilege" and promoted a return to gold (Eichengreen, 2011). In August 1971, Nixon unilaterally suspended the convertibility of the dollar into gold and imposed a temporary 10% tariff on imports. This episode, known as the "Nixon Shock", was interpreted as evidence that the dollar was an ailing currency (Garten, 2021).

The outcome, however, was different. Despite the shock, no substitutes of comparable financial scale emerged: neither the deutsche mark nor the yen offered sufficiently deep markets, and the Soviet Union was not a credible economic contender (Eichengreen, 2011). At the same time, the inflation of the 1970s gave way to a shift in monetary policy: the appointment of Paul Volcker in 1979 and the efforts to bring inflation under control restored the Fed's credibility and ultimately strengthened the dollar (Rogoff, 2025).

Nixon's protectionism, moreover, was temporary and gave way to decades of liberalization, while the political and military hegemony of the United States during the Cold War acted as a security umbrella for dollar demand (Garten, 2021). Over time, the "exorbitant privilege" was reinforced when, after the 1997–98 Asian crisis, many emerging economies accumulated dollar reserves to self-insure, financing U.S. deficits at low cost (Eichengreen, 2011).

After the 2008 financial crisis, in a context of expansionary monetary policy by the Fed and public debt at historically high levels—in 2024, the debt-to-GDP ratio stood at around 120%—challenges to the "exorbitant privilege" of the United States resurfaced forcefully (Eichengreen, 2011). Today, moreover, still relatively high inflation, the greater exposure of the Federal Reserve's independence to political pressure, and a more protectionist U.S. trade policy mean that the current debate echoes the period of the "Nixon Shock" (Chahrour & Valchev, 2023; Mohr & Trebesch, 2025; Rogoff, 2025).

But there are also relevant differences. The world economy is more multipolar today, and the relative share of the United States in global trade and investment has declined (Eichengreen, 2011). In addition, there are relatively more viable monetary alternatives, with the euro as a partial rival and China promoting the internationalization of the renminbi (Benguria & Novy, 2025; Chinn et al., 2024). Washington's greater use of financial sanctions, in turn, reinforces incentives to diversify portfolios (Bianchi & Sosa-Padilla, 2025). In an environment of geopolitical fragmentation, the conditions that facilitated the dollar's resilience after the 1971 shock appear less clear today (Mohr & Trebesch, 2025).

The lesson is twofold. First, historically, predictions of a collapse of the dollar have been premature. Second, the fundamentals that sustain the dollar's hege-

mony are dynamic and therefore subject to change. In a scenario with relatively more credible rivals and greater strategic competition, dollar dominance appears marginally more uncertain than in the period after 1971.

## 4.2 The reasons for the dollar's persistence

As discussed, the dollar's hegemony faces geopolitical, technological, and fiscal pressures. Even so, its continuity reflects the fact that the marginal private benefits of coordinating around the dollar still outweigh those of replacing it, partly because of the scale and resilience of the U.S. financial system and partly because of coordination frictions associated with networks and trade–finance interactions. This section synthesizes these elements from a comparative perspective, highlighting why the current equilibrium tends to be robust to moderate shocks and which conditions could make a transition more plausible.

### 4.2.1 Financial depth and safe-haven role

The dollar's strongest support lies in the scale and liquidity of U.S. financial markets. Although the relative share of the United States in world GDP has declined, its weight in the universe of global investable assets remains high, which allows it to supply liquid instruments on a large scale (Arvai & Coimbra, 2025). In this sense, the literature emphasizes that, for an international currency, the issuer's capacity to supply safe assets and absorb global savings flows is more decisive than its size in terms of output (Coppola et al., 2025; Pettis, 2022; Waller, 2024).

Liquidity also operates as an equilibrium selection mechanism. When a currency's secondary market is deeper, issuers have incentives to denominate their liabilities in it because search frictions, spreads, and transaction costs associated with trading and settling contracts are reduced. This logic generates positive feedback: greater liquidity encourages more issuance and intermediation, which in turn deepens liquidity and consolidates the incumbent's advantage (Coppola et al., 2025; Norrlöf, 2023). Taken together, this makes the scale of the U.S. financial system—in particular, the Treasury market—difficult to replicate in the short and medium term, raising the coordination costs associated with an exit from the dollar (Norrlöf, 2023).

This financial depth is complemented by institutional attributes that sustain the dollar's role as a safe haven. Historically, the perception of U.S. debt as a safe asset has rested on the rule of law, the protection of property rights, and the independence of the Federal Reserve. During episodes of systemic stress, such as the 2008 global financial crisis and the COVID-19 pandemic, the appreciation of the dollar and the increased demand for Treasuries were consistent with its function as an asset of last resort (Nelson & Weiss, 2022; Rogoff, 2025).

The key point for persistence is that confidence operates in a comparative and coordinated manner: when global risk aversion increases, agents demand instruments

that combine legal certainty, immediate liquidity, and the capacity to absorb large-scale flows—properties that remain concentrated in the Treasury market (Nelson & Weiss, 2022; Rogoff, 2025). In this context, recent evidence on variations in the convenience yield is consistent with changes in the marginal valuation of these attributes, without necessarily implying a massive substitution, given the absence of close alternatives of comparable scale (Jiang, Richmond, & Zhang, 2025; Krishnamurthy & Chumbo, 2025; Rogoff, 2025).

That said, the gradual decline in the relative weight of the United States in the world economy is a relevant counterweight. All else equal, it reduces the country's gravitational pull in global trade and production, so the dollar's persistence depends on its financial advantage—depth, liquidity, and openness—continuing to prevail over that trend in the real economy (Krugman, 2023).

In comparative terms, a transition would become more plausible if there were a persistent and widespread deterioration in (i) the liquidity and absorptive capacity of the Treasury market or (ii) the perception of legal certainty and macro-financial stability associated with those assets, such that the dollar's safe-haven advantage declined on a sustained basis relative to close substitutes.

### 4.2.2 Coordination, network effects, and complementarities

The dollar's primacy is also reinforced by coordination frictions associated with network externalities and complementarities among payments, funding, and invoicing. In practice, the utility of using a currency increases with the number of agents who already use it, which tends to produce a structure close to a "natural monopoly" or, at least, a persistent incumbent advantage (Eichengreen, 2011; Krugman, 2023). In foreign exchange markets, this manifests itself in the dollar's role as a vehicle currency: to exchange two less liquid currencies, it is usually more efficient to carry out two transactions against the dollar than to trade directly in a shallow bilateral market, which reduces search costs and bid–ask spreads and reinforces a cycle in which greater liquidity attracts more trading and, in turn, deepens liquidity (Eichengreen, 2011).

As a result, dollar-based payment and funding infrastructure tends to reproduce itself, raising barriers to entry for alternatives. Even when there are incentives for marginal diversification, migrating to another network requires large-scale coordination: for an individual agent, deviating can mean higher spreads, fewer available counterparties, and higher operating costs (Krugman, 2023). In the technological dimension, recent innovation does not necessarily weaken the dollar in the short term. In the digital era, the availability of secure and resilient technological infrastructure for payments and custody may reinforce this transactional advantage (Rey, 2025).

These coordination frictions are amplified by trade–finance complementarities. As developed in Section 3, when a significant fraction of trade is priced in dollars, households and firms value holding deposits and safe assets in that currency as a hedge and to preserve purchasing power in the unit relevant for international transactions. This reinforces the demand for dollar liquidity and lowers the cost of funding in that de-

nomination (Gopinath & Stein, 2021). This interaction helps sustain an equilibrium that is robust to moderate shocks. However, precisely because it depends on expectations and coordination, the system may admit multiple equilibria: a sufficiently severe confidence shock, or the consolidation of an alternative that replicates these advantages on a global scale, could induce a gradual reallocation toward a different monetary arrangement (Farhi & Maggiori, 2018; Mukhin, 2022).

In the current state of the international monetary system, such a transition seems more likely to take the form of a gradual and regional process—underpinned by trade agreements, payment infrastructure, and specific financial mechanisms—than that of a rapid global replacement. This is precisely because none of the alternative economies manages to combine, simultaneously, the scale of safe assets, the financial openness, and the network effects that the dollar has already consolidated.

In sum, unless (i) a persistent erosion of the dollar's safe-haven and liquidity advantage is combined with (ii) the consolidation of an alternative that markedly reduces coordination costs, the dominant equilibrium will tend to undergo marginal adjustments (diversification, regionalization) rather than transition toward a global replacement. The viability of the potential alternatives is discussed in detail in Box B.

**Box B: Analysis of alternatives to the dollar**

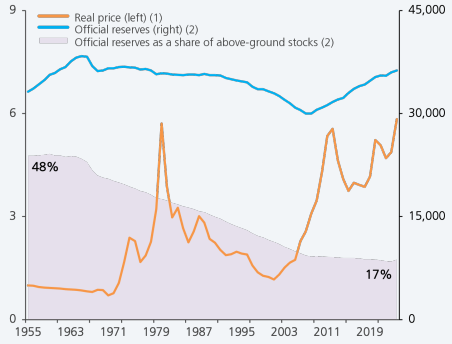
This box discusses the currencies and assets that are currently often mentioned as potential candidates to play a dominant role in the international monetary system, in a context of greater uncertainty about the dollar's hegemony. For each case, the analysis summarizes the arguments that could favor its internationalization and the structural limitations that make it difficult for it to attain comparable status. It reviews the euro and the renminbi, the possibility of a multipolar equilibrium, and, finally, gold, whose relevance as an official reserve asset has increased markedly in recent years.

**The euro.** Today, the euro is generally regarded as the main alternative to the dollar, given the scale of the European Union as an economic and trading bloc and the euro's widespread use in Europe and in some African economies (Bertaut et al., 2025; Boz et al., 2025; Gopinath & Itskhoki, 2022). Its main limitation, however, is the absence of a fully unified pan-European debt market, which constrains the formation of a sufficiently deep and liquid market on a scale comparable to that of Treasuries (Reinhart, 2025). In practice, investors do not perceive European sovereign bonds as homogeneous in terms of risk, which fragments liquidity and weakens their function as a common safe asset (Eichengreen, 2023; Rogoff, 2025). That said, the issuance of jointly backed EU debt during the pandemic constitutes a significant step toward greater fiscal integration and a deeper capital market for euro-denominated instruments (Bertaut et al., 2025).

**The renminbi.** Another widely discussed alternative is the renminbi, given the large weight of the Chinese economy in international trade. Its international use is currently growing steadily, expanding beyond Asia (Boz et al., 2025) and gaining ground following the sanctions imposed on Russia by the United States after the invasion of Ukraine in 2022 (Aiyar et al., 2023; Boz et al., 2025). Even so, its international role remains modest, especially in trade between third countries (Boz et al., 2025; Gopinath & Itskhoki, 2022). Moreover, the presence of capital controls in China and the renminbi's imperfect convertibility limit its liquidity and reduce its appeal to global investors (Bertaut et al., 2025; Chahrour & Valchev, 2023; Rogoff, 2025).

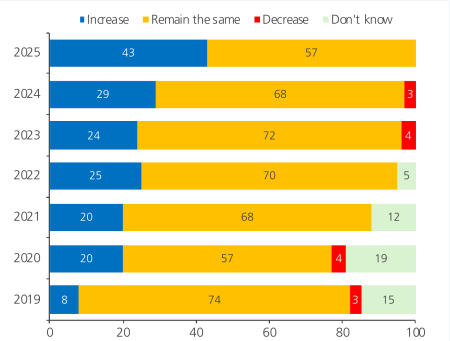
**Multipolar equilibrium.** A third possibility is a multipolar equilibrium, with several relevant reserve currencies. This scenario is associated, among other factors, with the rising share of currencies of relatively small economies—such as the Australian dollar, the Canadian dollar, and the Swiss franc—in official portfolios (Arslanalp et al., 2022). A potential advantage over a system with a single hegemonic currency is that it could ease the Triffin dilemma by expanding the global fiscal capacity available to supply safe assets: more issuers would contribute to the supply of safe assets, reducing the burden currently borne by a single country (Farhi & Maggiori, 2018; Farhi et al., 2011). It could also increase the room for maneuver of monetary policy in economies without a dominant currency, depending on their macro-financial characteristics (see Section 4.3) (Devereux et al., 2025). However, the coexistence of two or more reserve currencies can also intensify substitution between safe assets and, with it, the volatility associated with frequent portfolio reallocations, as occurred during the interwar period (Carney, 2019; Farhi & Maggiori, 2018; Gourinchas et al., 2019; Nurkse, 1944).

**FIGURE 8 Gold: Real Price and Official Reserves in Volume and as a Share of Above-Ground Stocks**
(index 1955=1; percent; tonnes)




*Notes:* (1) The global volume of above-ground gold stocks is from the World Gold Council from 2009 onward. For earlier years, the series is spliced backward using the growth rate of world gold production. (2) The real gold price is the nominal price (dollars per ounce) deflated by the U.S. CPI.
**Source:** IMF, World Gold Council, U.S. Geological Survey, National Mining Association, and Minneapolis Fed.

**FIGURE 9 Central Bank Expectations Regarding Their Gold Reserves over the Next 12 Months**
(percent of responses)




Source: World Gold Council, June 2025.

**Gold.** Finally, in recent years gold has gained relevance as a partial alternative for the accumulation of official reserves (see Section 2.5). Its advantages include its status as a universally accepted asset, its safe-haven role during episodes of stress, and its capacity to hedge against inflation, depreciation, and geopolitical risk (Arslanalp et al., 2023; European Central Bank, 2025). In this context, central banks accumulated more than 1,000 tonnes of gold per year between 2022 and 2024, above the average of 400–500 tonnes observed in the previous decade (World Gold Council, 2025). By the end of 2024, the volume of official gold reserves (in tonnes) had reached levels close to those of the Bretton Woods era (see Figure 8). Moreover, surveys conducted in mid-2025 indicated that a significant fraction of central banks expected to continue increasing their holdings over the following twelve months (see Figure 9). However, gold faces limitations as a substitute: high price volatility, scale and supply constraints, and reduced monetary autonomy when policy becomes more exposed to supply and demand shocks in the gold market (Farhi & Maggiori, 2018).

## 4.3 Effects of a change in the dominant currency on monetary and financial policy in emerging economies

The literature on dominant currencies has focused on the determinants of dominance and its persistence mechanisms, as well as on its policy effects under a dollar-dominated regime. By contrast, the consequences of a transition between dominant currencies and, in particular, its effects on policy design in emerging economies have not been addressed directly. Nevertheless, the lessons learned under dollar dominance offer insight into how "de-dollarization" could affect the room for maneuver of monetary policy and the use of financial tools in small open economies.

The starting point is the trilemma of Mundell (1963) and Fleming (1962). Today, the policy standard for emerging economies that integrate into international financial markets has been the adoption of a floating exchange rate regime, which makes it possible to conduct a monetary policy oriented toward the domestic economy. This implies that changes in the external environment, including a transition between dominant currencies, should not alter a small open economy's ability to orient its monetary policy toward domestic conditions. However, as discussed in Section 3.1, the most recent evidence shows that there are structural features that reduce that independence in the face of shocks associated with the dominant currency (Basu et al., 2020). In general terms, monetary dominance limits the traditional real adjustment channel and strengthens financial mechanisms that link the domestic cycle to external conditions.

A first set of constraints operates through trade. The influence of the dominant currency on monetary transmission is greater when a significant fraction of trade is invoiced in that currency and exported goods and services face price rigidities and uncompetitive markets (Basu et al., 2025; Ca' Zorzi et al., 2020; Miranda-Agrippino & Nenova, 2022). These features limit the operation of the expenditure-switching channel because, following an exchange rate depreciation, export prices do not fall as quickly as in the canonical model, resulting in a smaller expansion of output in the short run. This effect, however, tends to diminish in the long run, as lower production costs in local currency pass through to the prices of internationally traded goods and services (De Gregorio et al., 2024).

Even so, in many emerging economies, exports denominated in the dominant currency consist mainly of primary commodities, whose prices are more flexible and determined in more competitive markets (Amiti et al., 2022; McLeay & Tenreyro, 2025). This preserves, to a greater extent, the insulating role of a flexible exchange rate against the direct influence of the dominant currency. Moreover, recent results suggest that a framework combining a floating exchange rate and inflation targeting remains optimal for small open economies, even when the features of international trade highlighted above are incorporated (Egorov & Mukhin, 2023; Itskhoki & Mukhin, 2023).

A second set of constraints stems from international finance. Monetary policy loses room for maneuver when there are significant currency mismatches, in particular when liabilities in the dominant currency exceed assets in that currency by significant amounts. This is common in emerging economies, where borrowing in dollars is often cheaper

than borrowing in local currency, in line with the trade–finance complementarities discussed in Section 3. Under these circumstances, depreciations weaken balance sheets and can amplify financial fragilities (Céspedes et al., 2004; Eren & Malamud, 2022; Fontanier, 2023; Kalemli-Özcan et al., 2016). As a result, monetary policy tends to react to global uncertainty by trying to contain depreciations instead of operating countercyclically, a phenomenon known as "fear of floating" (Calvo & Reinhart, 2002).

These frictions intensify when the local foreign exchange market and hedging instruments are shallow. In that case, the convenience yield of the dominant currency, the uncovered interest parity (UIP) premium, and exchange rate volatility all increase, deepening the mechanisms described above (Basu et al., 2025; Bianchi et al., 2021). Accordingly, the development of local currency financial markets and hedging instruments can reduce frictions and make more effective the combination of a flexible exchange rate, capital mobility, and independent monetary policy that underlies the trilemma. In recent years, progress in this direction has been observed in several emerging economies (Park & Shin, 2025).

These financial constraints also justify the use of complementary instruments. In practice, countries resort to macroprudential measures to limit foreign exchange exposures (Ahnert et al., 2021; De Crescenzio et al., 2023), occasional foreign exchange intervention (Mano & Sgherri, 2020), and the accumulation of international reserves to cover import payments and external debt service (Arslan & Cantú, 2019; Jeanne & Rancière, 2011). Given the dollar's dominant role, these policies are usually oriented mainly toward that currency. An eventual transition to another dominant currency would therefore entail reorienting these instruments toward the new relevant denominations, where analogous needs for hedging and mismatch management would arise.

So far, the focus has been on how dollar dominance constrains the room for maneuver of emerging economies in the presence of shocks associated with the issuer of the dominant currency, and on the extent to which that dominance affects their policy decisions. The literature, however, addresses less directly how these policies adjust to a transition between dominant currencies or to disturbances that precipitate such a process. As discussed in Section 2, these changes are infrequent and tend to materialize gradually. One example is the recomposition of international reserves after World War II, when the system shifted from dominance associated with pound sterling to dominance of the dollar (Schenk, 2010). That episode was gradual and "managed" within multilateral fora, with the aim of proceeding step by step and limiting frictions for the economies that still held reserves in the outgoing currency. This experience underscores the importance of coordinated transitions to contain the impact on the world economy.

# 5. CONCLUSIONS

Although the dollar's hegemony faces pressures associated with geopolitical, technological, and fiscal transformations, the evidence reviewed suggests that the absence of plausible alternatives of comparable scale in safe assets, market depth, financial open-

ness, and network effects makes the persistence of the dollar as the dominant currency the most likely scenario. In particular, although marginal adjustments may be observed through gradual changes in invoicing patterns and, above all, in the composition of official and private portfolios, these would tend to materialize mainly as incremental diversification toward nontraditional currencies and other assets, rather than as a rapid and global substitution toward a new monetary anchor. More importantly, historical experience suggests that the impact of such a transition on emerging economies will depend crucially on the coordination and credibility of global financial arrangements, which reinforces the case for robust policy frameworks that reduce vulnerabilities and facilitate adaptation.

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# Appendix

## A. DETAILS OF FIGURE 6

The data in Figure 6 are from Annex 2.4 of IMF (2025). Unless otherwise noted in the text, the data refer to 2023.

They represent the issuing jurisdiction's share of global gross domestic product (GDP), world trade, and international finance. International trade is defined as the sum of exports and imports, excluding intra-euro area flows, based on 2023 data from BACI (the French acronym for Base pour l'Analyse du Commerce International). International finance is defined as total financial assets plus liabilities in 2023, using data from Milesi-Ferretti (2025).

Data on the trade invoicing currency are from Boz et al. (2025). Foreign exchange reserves are from the IMF's COFER database; shares are the percentages of each currency in reserves for which the currency breakdown is published. Cross-border loans correspond to international bank claims. The data are from the BIS Locational Banking Statistics (LBS), by residence, as of end-2023, and include only loans and deposits. International bonds correspond to international debt securities outstanding at end-2023. FX turnover corresponds to the volume of foreign exchange market transactions, measured as the daily average of amounts across all foreign exchange instruments (spot and FX derivatives) in April 2022. These data are from the "2022 Triennial OTC Survey" and are on a net-net basis divided by 2. SWIFT data are based on Cerutti et al. (2025) and refer to 2024; they correspond to the dollar's share in transactions of financial institutions and customers.