

Prospects for the International Role of the Dollar

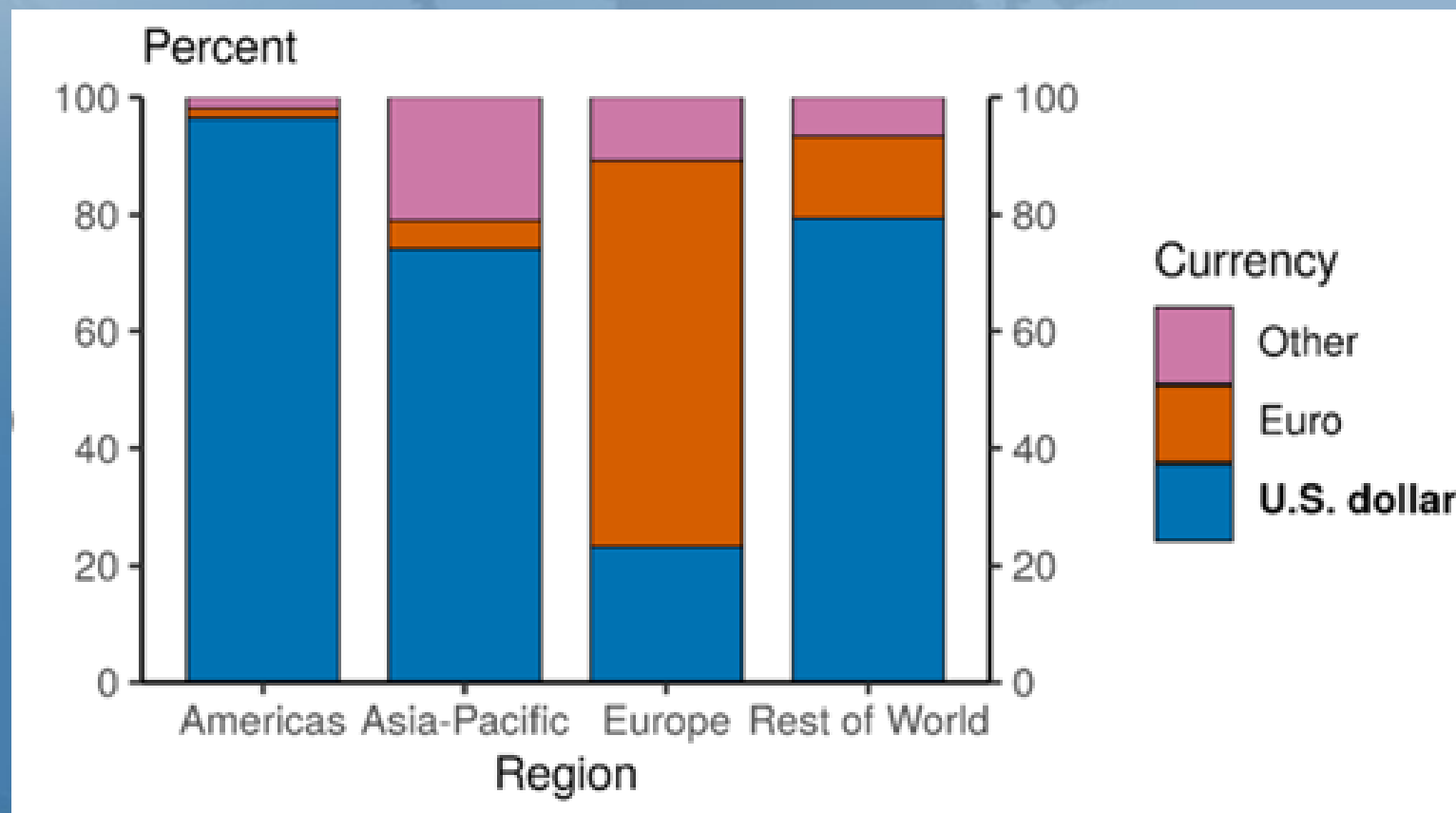
Presentation at the Federal Reserve Bank of Dallas

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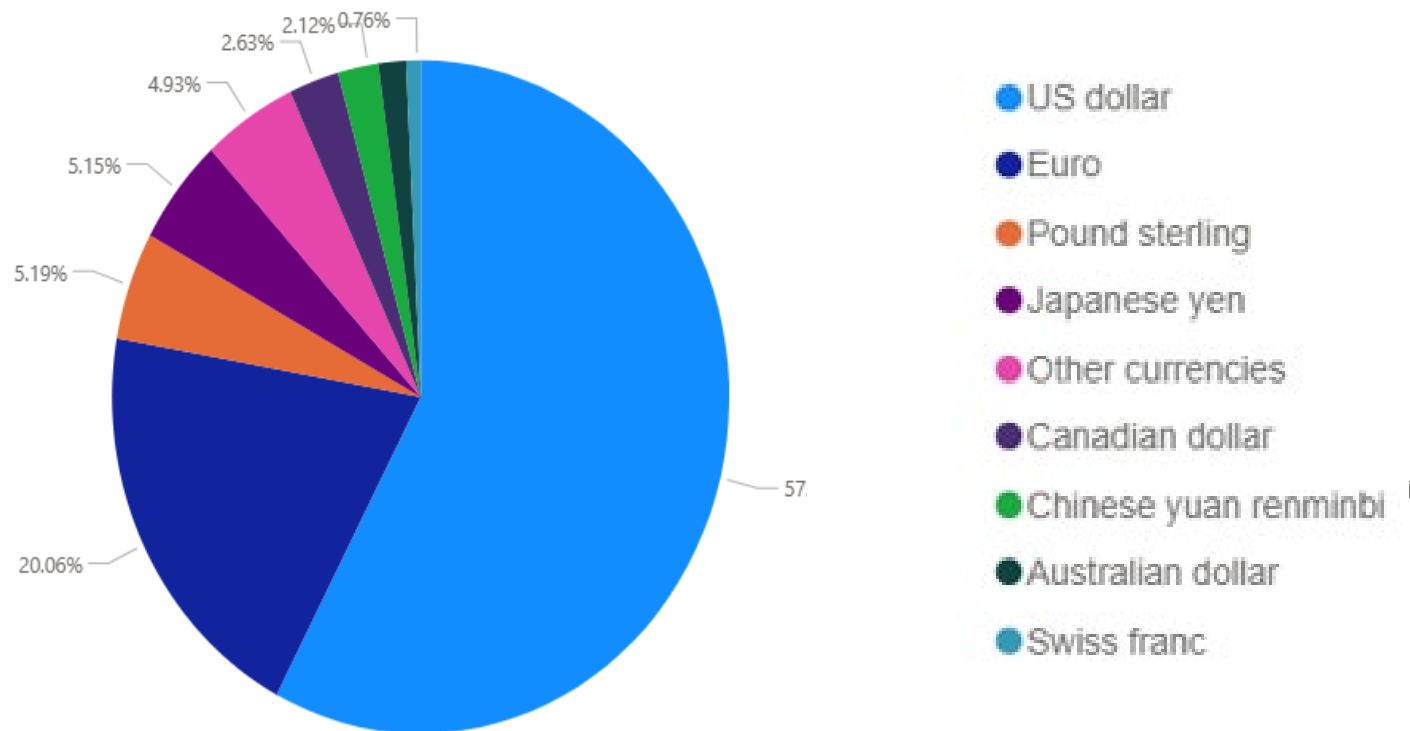
Currency Shares in Export Invoicing 1999-2019



Bertaut, Carol, Bastian von Beschwitz, and Stephanie Curcuru (2025). "The International Role of the U.S. Dollar – 2025 Edition," FEDS Notes. Washington: Federal Reserve System, July 18, 2025

Composition of International Reserves 2025 Q1

Allocated Reserves of Currency (Billions)

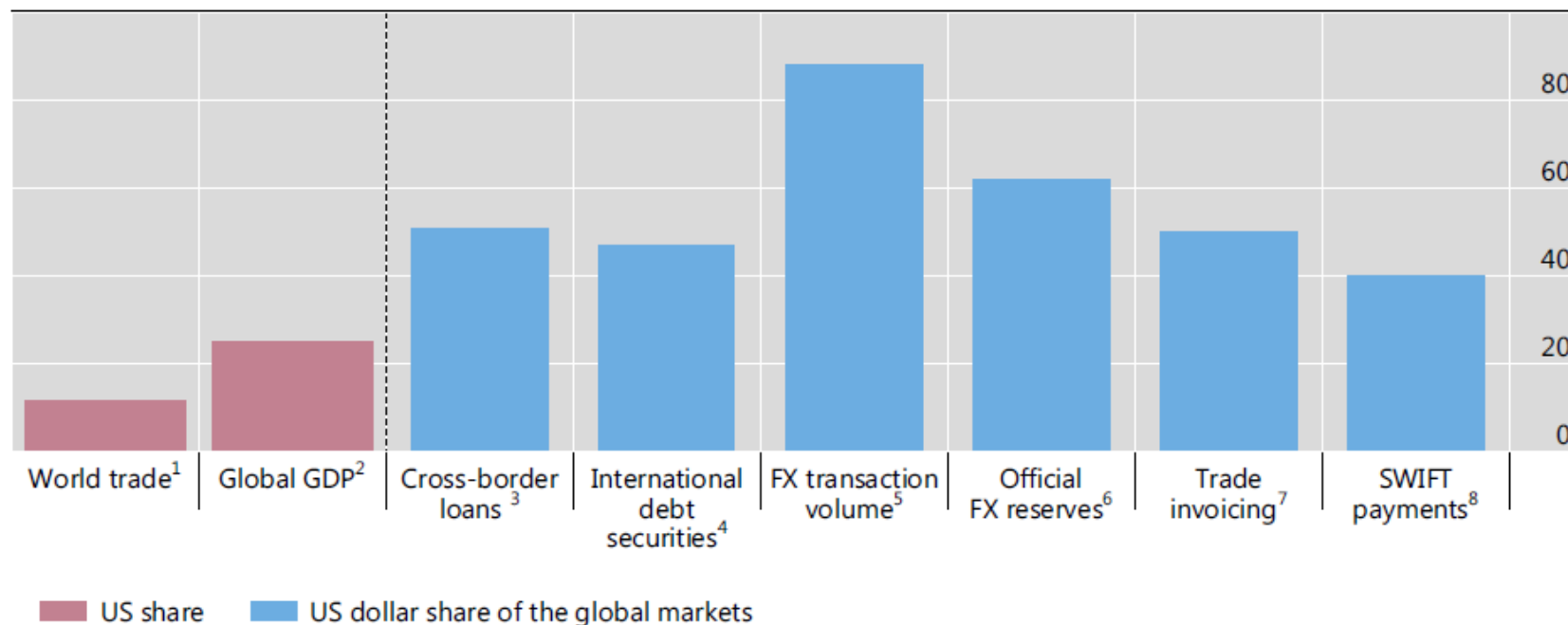


Dominance of the Dollar in International Finance

International role of the US dollar

In per cent

Graph 1



“Exorbitant privilege” enjoyed by dominant dollar is overrated.

- Seigniorage revenues are benefits of foreigners holdings cash dollars rather than interest-paying U.S. Treasuries.
 - Savings of only about .2% of U.S. GDP.
- Lower interest rates on global borrowing.
 - Nobody knows how much, but U.S. interest rates generally higher than those of other advanced economies.
- Higher demand for dollars leads to stronger dollar, cheaper import costs.
 - Again, size of effect is unknown.



Key benefit of dollar dominance: ability to enforce financial sanctions on bad actors abroad.

- Huge number of transactions around the world take place in dollars and are cleared either by the Federal Reserve or by internationally active banks supervised by U.S. authorities.
- Gives the U.S. government has the ability to exclude entities from much of the global financial system.
- And it has applied financial sanctions to numerous bad actors abroad, including Russia, North Korea, Iran, and many others.



“Weaponization” of U.S. financial sanctions triggers backlash against dollar dominance.

- **Brazil's Lula criticises US dollar and IMF during China visit**

France24 (April 14, 2023)

What is a BRICS currency and is the U.S. dollar in trouble?

Reuters (August 24, 2023)

How long will the dollar last as the world's default currency? The BRICS nations are gathering in South Africa this August with it on the agenda

Fortune (June 25, 2023)

Factors supporting the dollar's dominance

- The safety and liquidity of U.S. Treasuries.
- Investor protections provided by rule of law.
- The prudence and predictability of U.S. economic and financial policy.
- The continued importance of the U.S. economy in global trade and finance.
- Our strong military/political allegiances with other Western liberal countries.
- Network effects – everyone uses the dollar because everyone uses the dollar.



Factors that could undermine the dollar's dominance

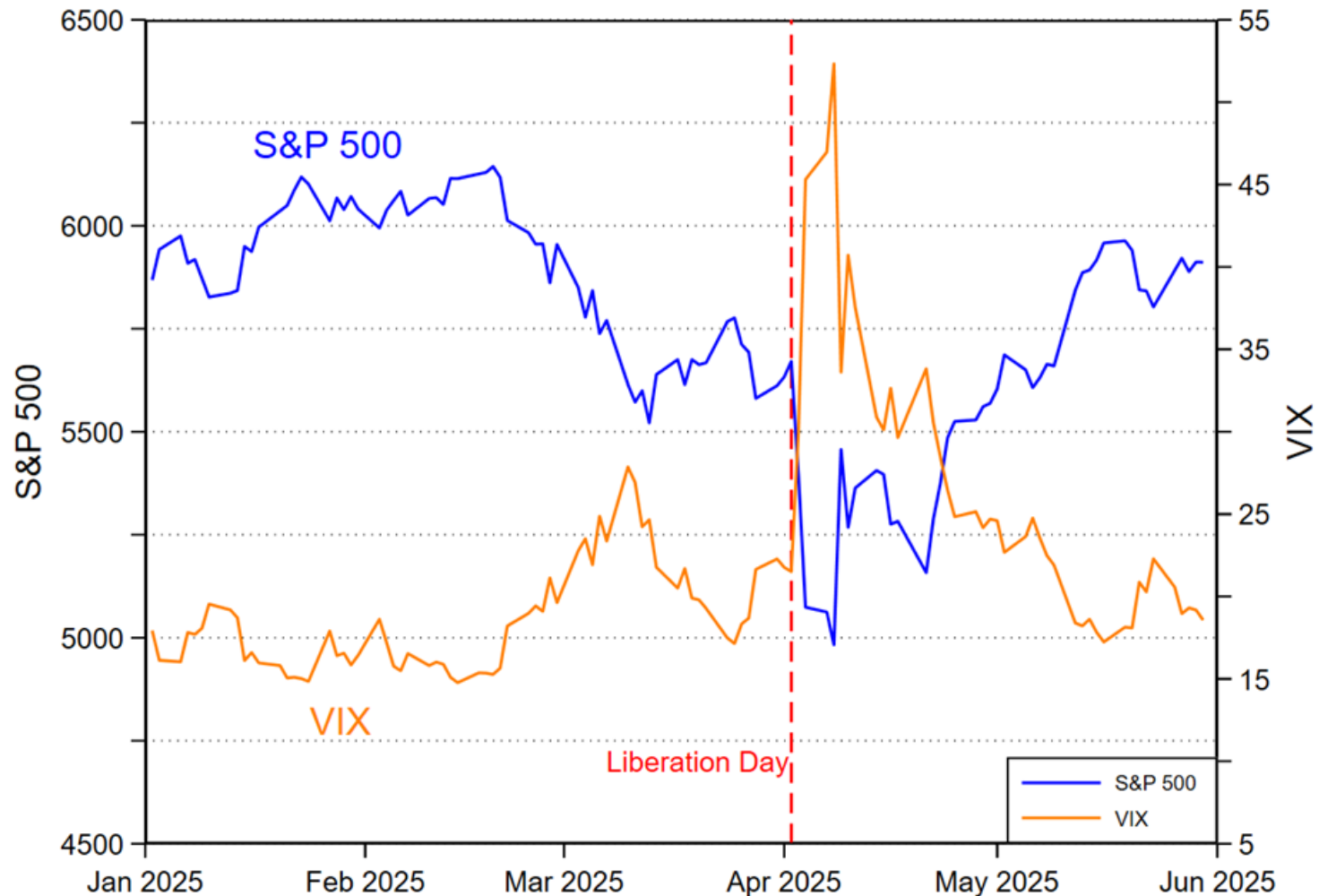
- Actions that diminish the safety and liquidity of U.S. Treasury bonds.
 - Especially prolonged federal deficits and rising debts.
- Policies that weaken the rule of law and protections for foreign investors.
- Capricious actions that reduce the predictability of U.S. policies.
- Attempts to restrain the independence of the Federal Reserve.
- Policies that reduce U.S. growth and the rate of return to U.S. assets.
- Policies that shrink the role of the U.S. economy in the global trade and financial system.
- Actions that weaken bonds of cooperation with our allies.

Tariffs announced on “Liberation Day”

 Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

 Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

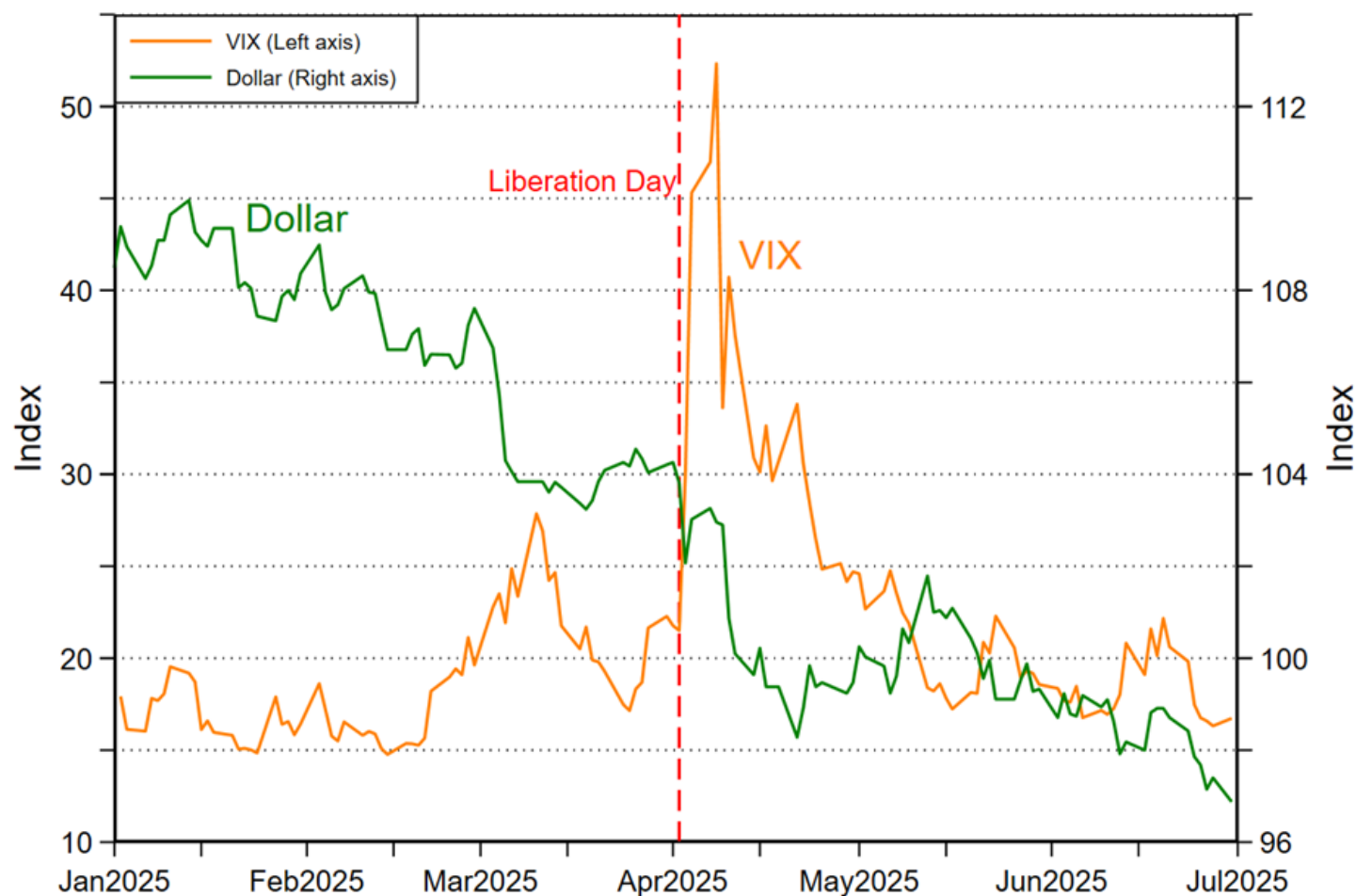
Stock market plunges, VIX volatility index soars, on “Liberation Day”



Note: Estimates run from January 1, 2025 to June 1, 2025.

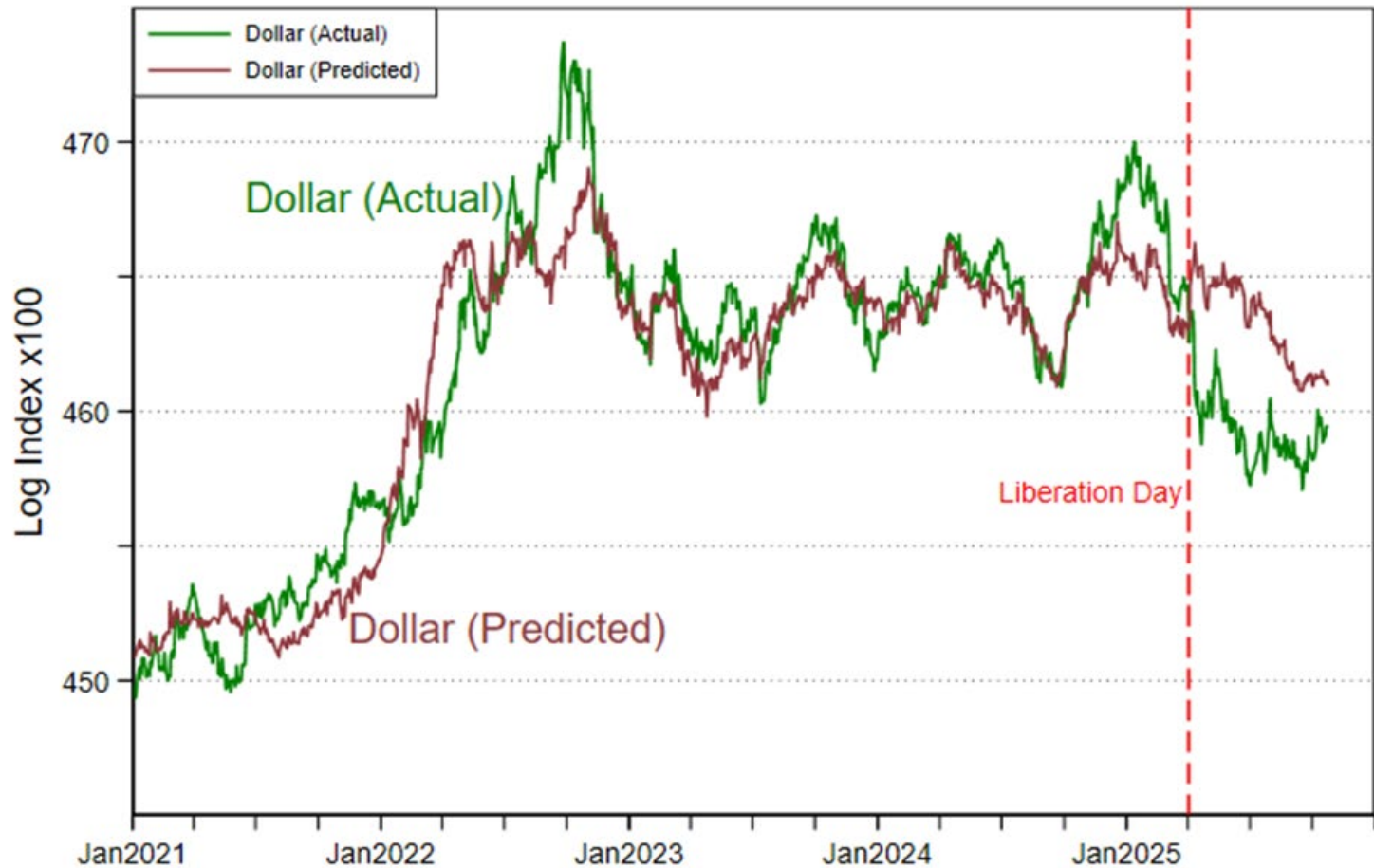
Source: Chicago Board Options Exchange; S&P Dow Jones Indices LLC via FRED

The dollar plunges as the VIX soars after Liberation Day.



Note: Estimates run from January 1, 2025 to June 30, 2025.
Source: Chicago Board Options Exchange; MarketWatch
DXY is Dollar Index

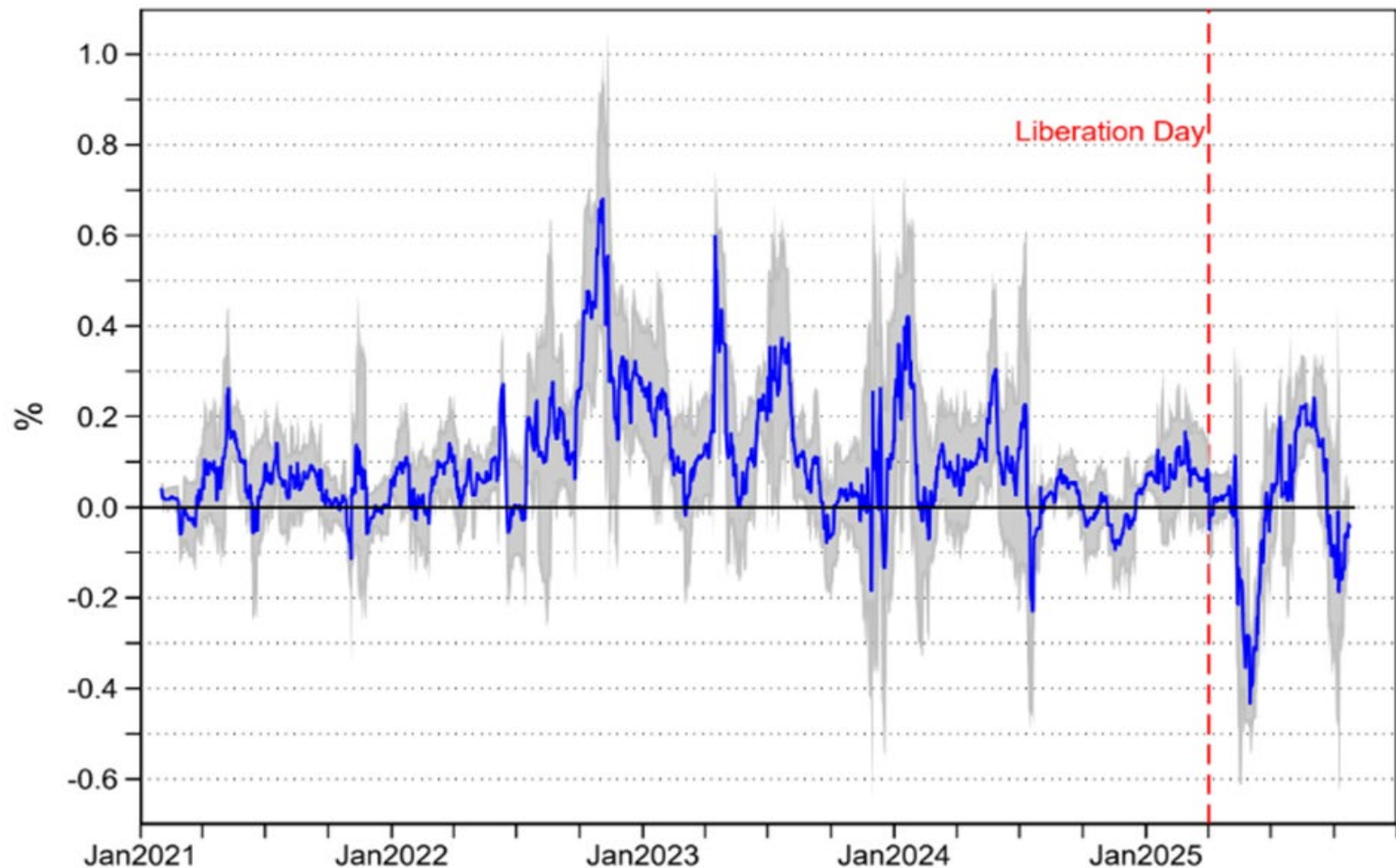
The dollar fell below the model prediction after Liberation Day, but the gap has since substantially narrowed.



Note: Estimates run from January 1, 2021 to October 24, 2025.

Source: Board of Governors of the Federal Reserve System (US) via FRED; Chicago Board Options Exchange; Federal Reserve Bank of St. Louis via FRED; MarketWatch
DXY is Dollar Index

The sensitivity of the dollar to the VIX plunged negative after Liberation Day but then reverted positive.



Note: Estimates run from January 1, 2021 to October 24, 2025.
Shaded area represents ± 1.96 times SE of the coefficient of the VIX.

Three scenarios for the end of dollar dominance:



Scenarios for the end of dollar dominance #1:

- Continued strong growth of trade and economic activity abroad
- Active portfolio diversification by reserve managers
- Improvements in payments technology may reduce the use of the dollar for transactions between non-U.S. economies



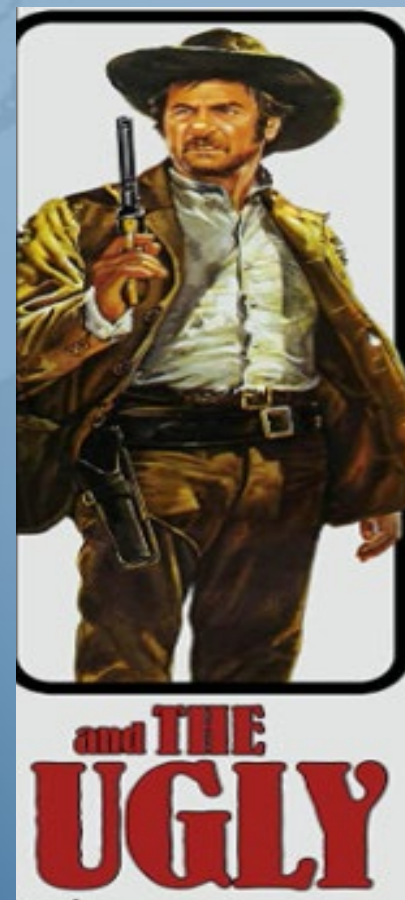
Scenarios for the end of dollar dominance #2:

- Geopolitical tensions lead to fragmentation of global trade and finance into U.S.- and China-led blocs.
- Shifts of reserves out of dollars to avoid sanctions.
- Aided by China's aggressive encouragement of use of renminbi in international payments.



Scenarios for the end of dollar dominance #3:

- Federal budget deficits persist and debt mounts amid continued political polarization and dysfunction.
- Constraints on the Federal Reserve lead to rising inflation.
- The result is a crowding out of private investment, heightened financial volatility, and reduction in the dynamism of the US economy.
- The loss of dollar dominance would be the least of our worries.



Thank you!

