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Dialogue with the Fed: **The International Role of the Dollar**

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Dialogue with the Fed
Federal Reserve Bank of St. Louis
November 19, 2025

I thank Anna Cole for research assistance.

**The opinions expressed are my own and not necessarily
those of the Federal Reserve Bank of St. Louis
or the Federal Reserve System.**

Agenda

- Three roles of money
 - USD as a medium of exchange, a vehicle currency
 - USD as a store of value, a reserve currency
 - USD as a unit of account, commodities priced in USD
- Competitors to the USD
- Benefits to Americans of the global roles of the USD
- Watch out for highlighted text/pics!

Next: Three Roles of Money: The Dollar



Three Roles of Money: The Dollar

- Medium of exchange
 - Avoid the problem of double coincidence of wants.
- Store of value
 - Money (mostly) holds its value.
- Unit of account
 - Money defines prices of all sorts.
- English speakers use the same word for all three.

Next: A digression on the word “currency”

A digression on the word “currency.”

- Currency has two related but distinct meanings:
 1. A type of money, e.g., USD, EUR, or JPY, used in foreign exchange.
 - Foreign exchange markets are known as currency markets.
 2. Physical cash. Green pieces of paper in the United States.

Next: USD as a vehicle: Medium of exchange

USD as a vehicle: Medium of exchange

- USD used very disproportionately in international transactions.
- USD use allows the U.S. to powerfully sanction other countries.
- U.S. currency held abroad is an interest-free loan to the U.S.

Next: USD in transactions vs. trade



USD in international transactions

- USD used very disproportionately in international transactions.
- Extent of use: 88% of FX transactions involve the dollar.
 - Euro is in 2nd place at 31%.
 - These numbers add up to 200%. Two currencies per transaction.
- U.S. trade is about 9% of world goods trade in 2019.
 - The U.S. share of services trade was about 12% in 2019.
 - The USD is used even when no U.S. goods or assets are involved.

Next: Most traded currency pairs

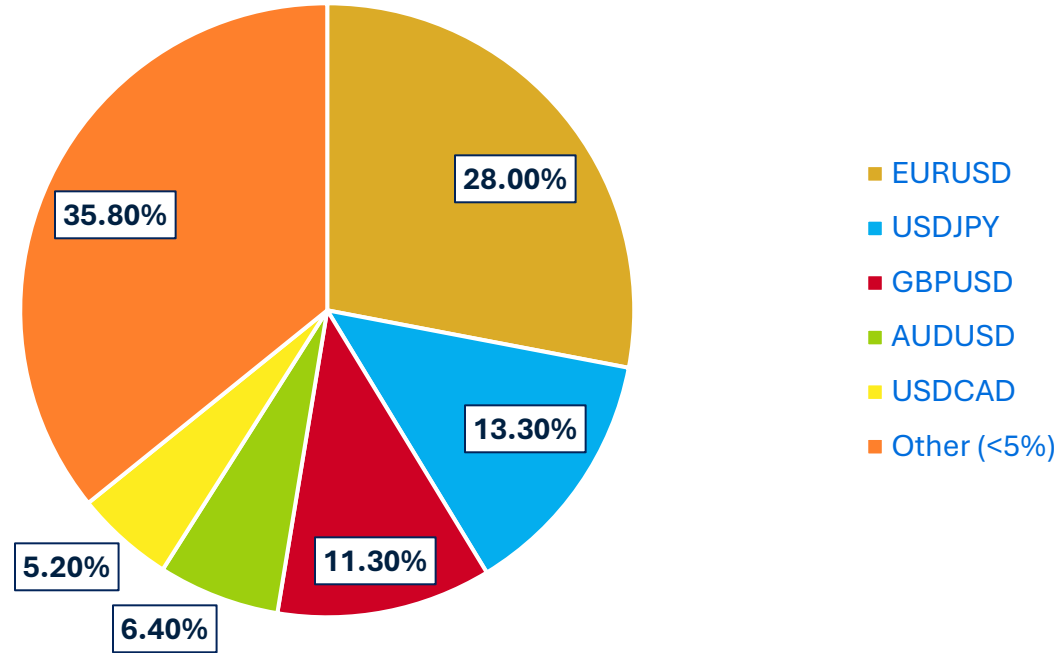


Most used exchange rates

Most traded currency pairs

These numbers add up to 100%.

Three exchange rates account for more than 50% of all FX transactions.



Next: Why so much trade in the USD?



Why is the USD used so much? Low cost

- Between WW1 & WW2, the USD & GBP shared the role.
- Dollar became dominant after WW2.
 - U.S. economy was almost 40% of nominal world GDP in 1960.
 - 2023 share was about 27% in nominal terms or 14.75% in PPP adjusted.
- Free and stable financial markets
 - Easy and safe to park short-term money.
- Self-reinforcing network externalities.
 - Large markets have greater liquidity and lower costs.

Next: USD payments system



USD payments system: A vehicle currency

- USD use allows the U.S. to powerfully sanction other countries.
- Payments are boring but important. Alternative is barter.
- The payments system is arcane.
- Control of payments is useful for sanctions.

Next: Fedwire, CHIPS and SWIFT



USD payments system

- **Fedwire:** Federal Reserve gross settlement system in USD
 - Interbank transfers, business payments, and U.S. govt securities.
 - Large domestic payments
- **CHIPS:** Clearing House Interbank Payments System
 - Private U.S. interbank clearance and settlement system.
 - 500,000 payments totaling \$1.8 trillion daily.
 - Cross-border payments.
- **SWIFT:** Society for Worldwide Interbank Financial Telecommunication
 - Not a payments system; messaging system.
 - Based in Belgium but the U.S. has a lot of pull.

Next: Payments and sanctions

USD payments & international sanctions

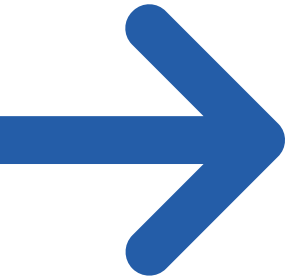
- The U.S. can exclude foreign banks and firms from Fedwire, CHIPS and (effectively) SWIFT.
 - Has been used vs. North Korea, Iran, and Russia.
 - This sanction nearly reduces them to (international) barter.
- Section 311 of the Patriot Act
 - International money laundering, recordkeeping and reporting requirements, currency smuggling and counterfeiting.
- Concern over overuse of such sanctions.

Next: U.S. Currency held abroad

U.S. currency held abroad

- 45% of U.S. cash held abroad in 2025Q1.
 - \$1.05 trillion or about \$3033 for every American.
 - Don't confuse this with FX reserves.
 - Why? Failures of domestic currency. Inflation. Instability.
- The cash is obtained through trade with the U.S.
- Goods & services for green paper is a good deal for the US.
 - Currency is special federal debt that doesn't pay interest.
 - We get an interest-free loan.

Next: USD as a reserve currency



USD as a reserve currency: A store of value

- USD used disproportionately for FX reserves.

Next: What are FX reserves?

USD as a reserve currency

- **What are FX reserves?**
- Safe assets denominated in liquid currencies
 - Mostly sovereign or IG bonds held for emergency, war, or fiscal crisis.
 - Gold and special drawing rights (SDRs) are also parts of FX reserves.
 - Country with a reserve currency has a large, deep and open economy and financial markets.

Next: USD as a reserve currency



USD as a reserve currency

		Type of asset	
		Treasuries	All USD assets
Holder of the assets	Foreign govts/central banks		FX reserves
	All foreign holders	Treasuries held abroad	First

Next: USD assets in FX reserves



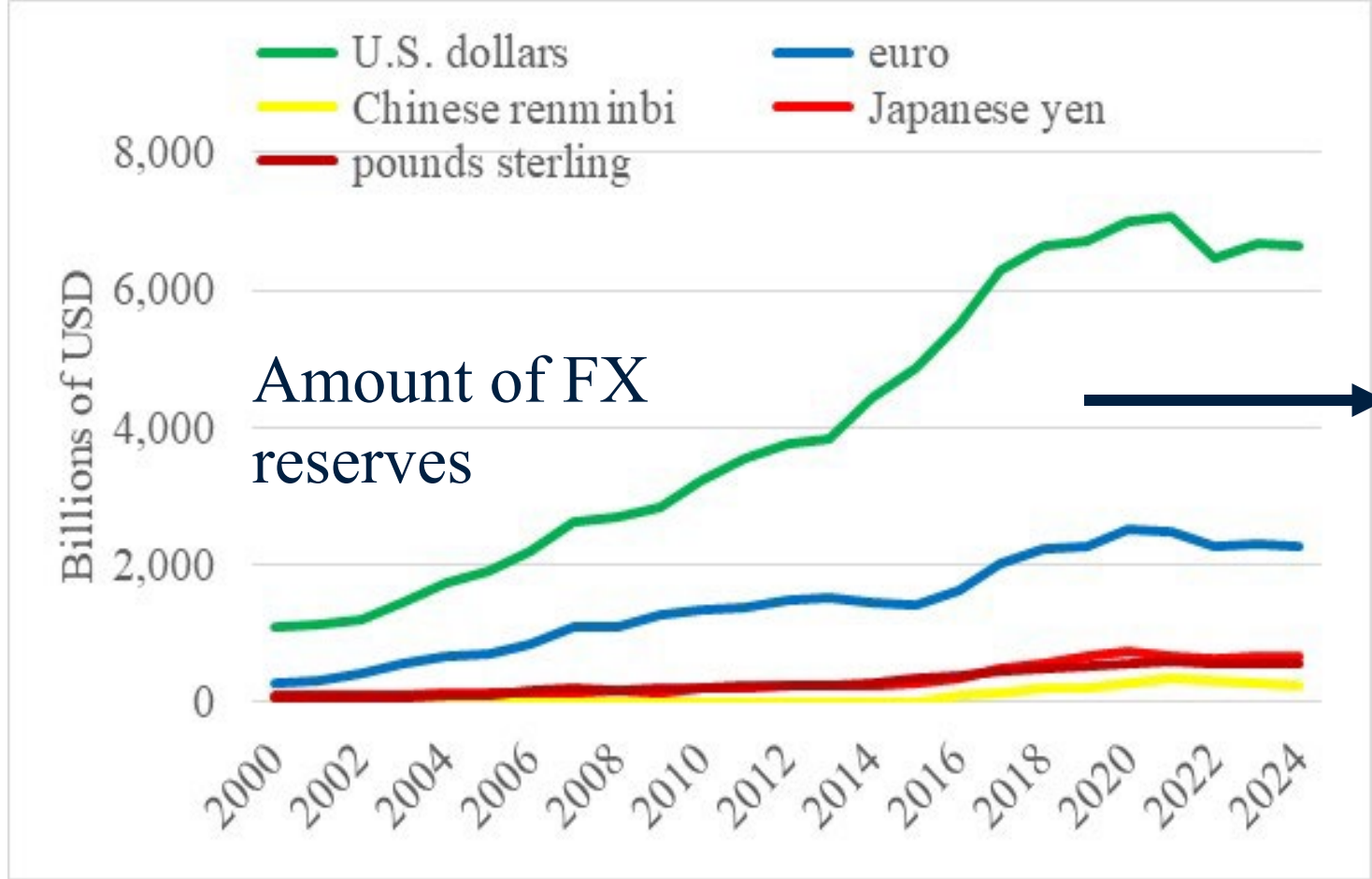
USD as a reserve currency: Store of value

- Amount of USD securities in FX reserves: \$6.63 trillion.
 - Global FX reserves are about \$12.36 trillion in 2024Q4.
 - Reserves identified by currency were \$11.47 trillion in 2024Q4.
- USD's share of FX reserves has declined from 71% to 58% since 2000.
- Gains by RMB, gold, emerging currencies explain the drop.

Next: Reserve currencies over time

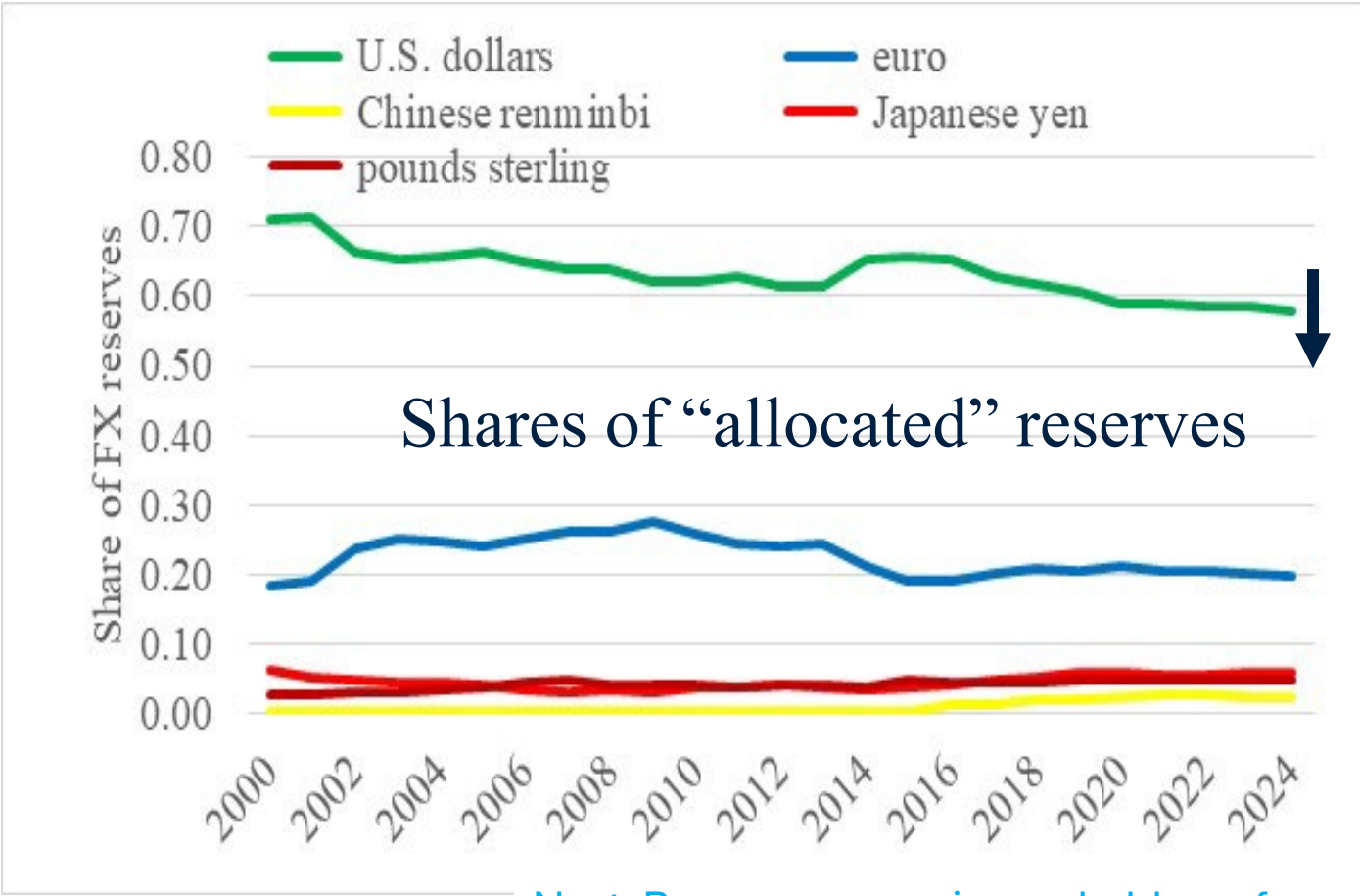
Reserves stabilized since 2018 or so.

Probably declined in inflation-adjusted terms.



Next: Reserve currencies over time

USD's share has declined from 71 to 58%, but it is still dominant.



Next: Reserve currencies vs. holders of reserves



USD as a reserve currency: Store of value

- I just showed you which currencies FX assets are denominated in.
- I will next show you which countries hold the most FX reserves.

Next: Holders of largest reserves

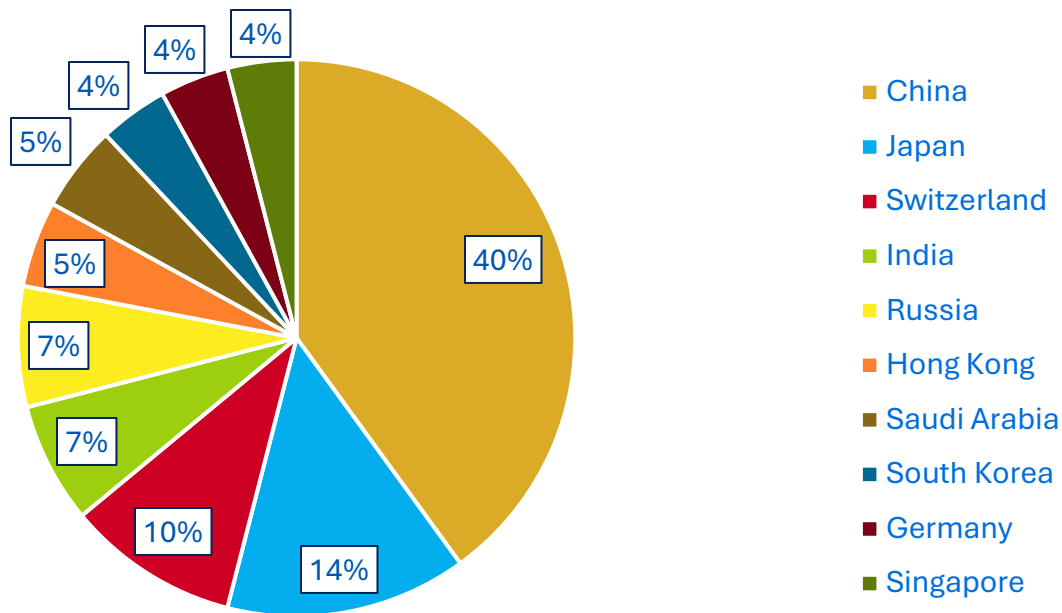


USD as a reserve currency: Store of value

- The PRC, Japan and Switzerland are the largest holders of FX reserves.
 - The PRC and Japan are big economies.
 - Japan is effectively running a SWF.
 - China intervenes in its FX market. It also wants to reserves in case of emergency or war.
 - Switzerland wants ability to control its exchange rate.

Next: Graph of holders of largest reserves

Foreign Currency Reserves (USD Billions)



Relative
sizes of FX
holdings

Next: Switch to all foreign holdings of Treasuries

USD as a reserve currency: Store of value

- The previous graphs dealt with official FX reserves.
 - Official FX reserves can include a variety of assets, including Treasuries and corporate bonds.
- Let us shift to talking about all foreign holdings of U.S. Treasuries.
- Most foreign holders of U.S. Treasuries are governments or central banks.
- Private foreign parties can also hold U.S. Treasuries.

Next: All foreign holdings of Treasuries



USD as a store of value

		Type of asset	
		Treasuries	All USD assets
Holder of the assets	Foreign govts/central banks		FX reserves
	All foreign holders	Treasuries held abroad	

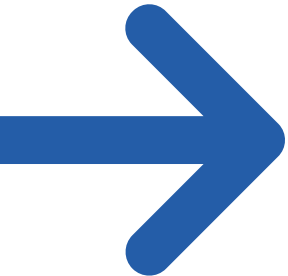
Second



Next: All foreign holdings of Treasuries



USD as a store of value

- 
- Foreign parties hold about 35% of “privately held” Treasury debt.

Next: All foreign holdings of Treasuries

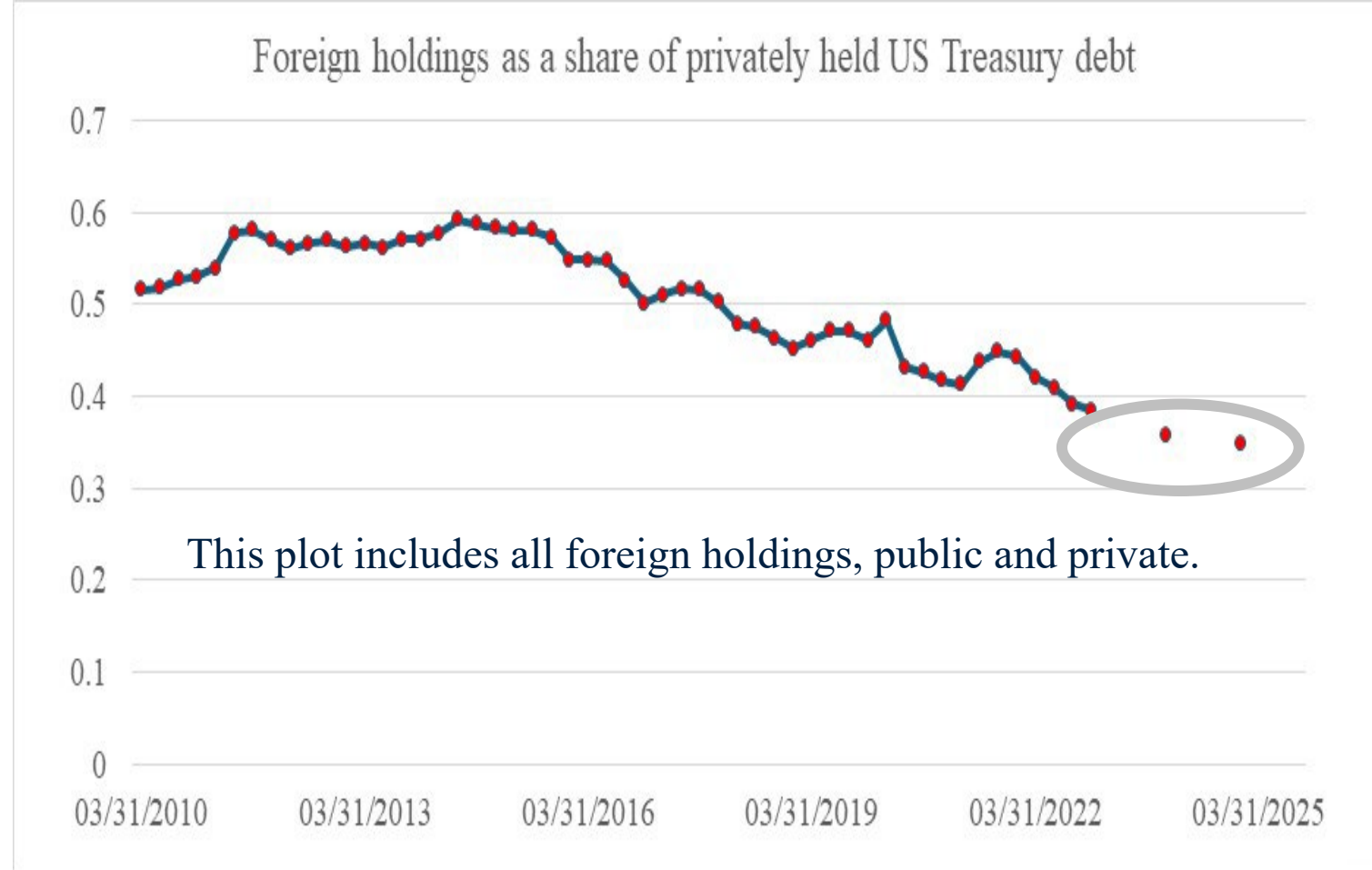
USD as a reserve currency: Store of value

- Foreign parties hold about 35 percent of privately held Treasury debt.
 - Privately held = Debt held by the public – Federal Reserve holdings
 - Debt held by the public includes holdings of foreign govts, state and local governments and their pension funds.
 - “Privately held” excludes intra U.S. governmental holdings.
 - E.g., the Social security trust fund.
 - Other USD assets are held overseas or as reserves.
- That figure was almost 60 percent in 2014.
 - High demand for safe, liquid assets after the Great Financial Crisis of 2008-2009.

Next: Foreign holdings of Treasuries over time.



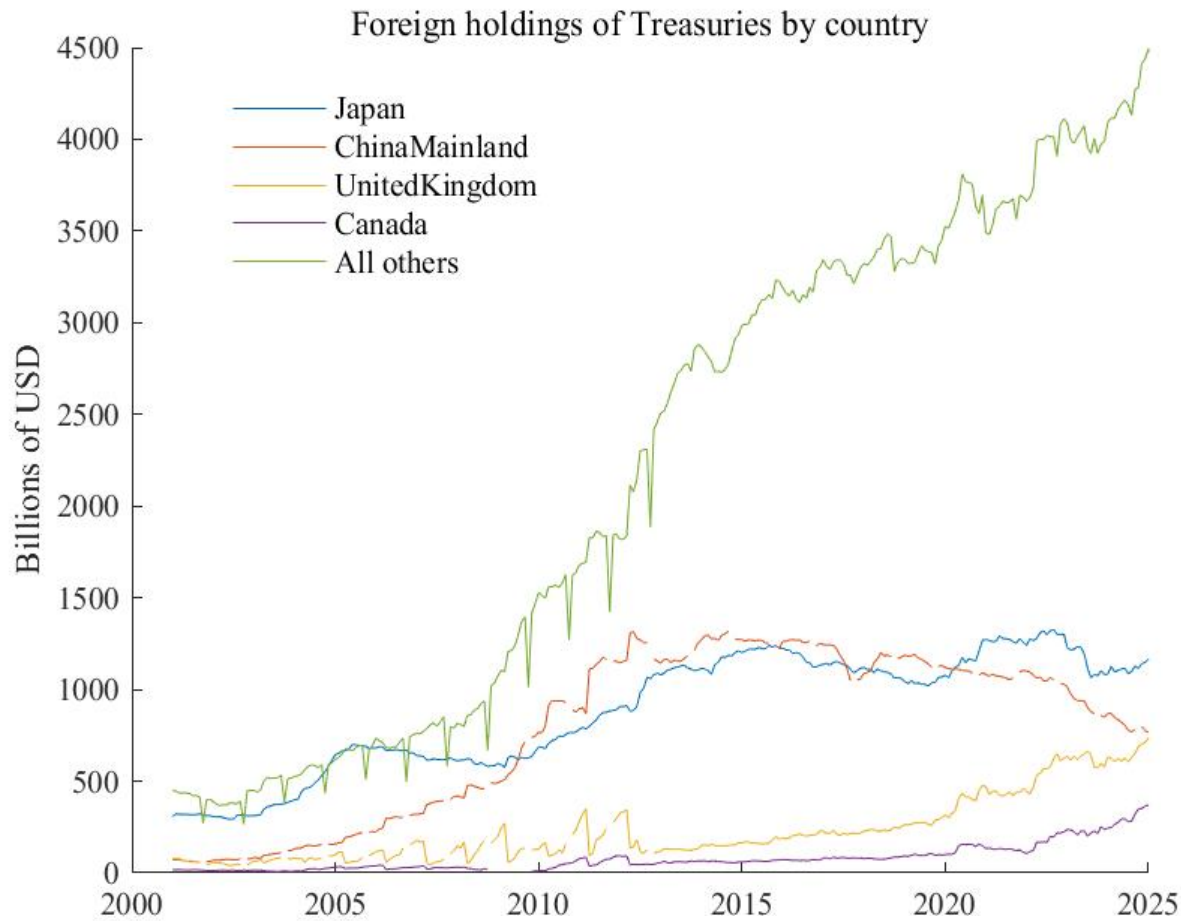
“Privately held”
excludes U.S.
government and
Federal Reserve
holdings.



Next: Time series of foreign government & central bank Treasury holdings



Includes only
foreign govt
and central
bank
holdings.



Next: Foreign holdings of Treasuries by country



What countries own U.S. Treasury debt?

Treasury holdings are in billion USD as of June 2025.

Country	Treasury Holdings	% of Total Foreign holdings	% of Treasuries Outstanding	% of Non-Fed-non-Govt-held Treasuries
Japan	1148	15.43	3.2	4.7
ChinaMainland	775	10.42	2.1	3.2
UnitedKingdom	712	9.57	2.0	2.9
Canada	365	4.91	1.0	1.5
Luxembourg	356	4.78	1.0	1.4
Ireland	341	4.59	0.9	1.4
Belgium	320	4.30	0.9	1.3
CaymanIslands	310	4.17	0.9	1.3
Switzerland	281	3.78	0.8	1.1
France	271	3.64	0.7	1.1

These data are not restricted to government holdings.

Treasuries outstanding is “Total Public Debt.” It includes Fed and govt-held Treasuries.

\$36218.6 as of December 21, 2024.

Non-Fed-non-US-Govt held Treasures is “Total Privately Held.”

\$24545.9 as of December 21, 2024.

Next: Do foreign holdings push down U.S. yields?



USD as a store of value

- Do large foreign holdings of U.S. debt push down U.S. yields?
 - It seems logical.
 - It is hard to find evidence for strong effects with simple methods.
 - I suspect that the answer is yes, but the effect is not huge.

Next: Do foreign holdings push down U.S. yields?

USD as a reserve currency: Yields

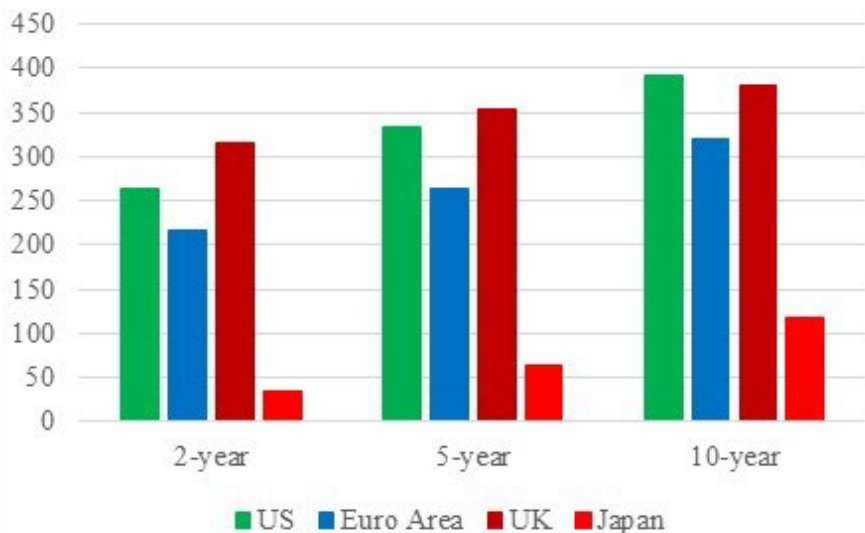
- International holdings of U.S. securities might depress U.S. yields.
- How much?
- To compare yields, we must consider
 - Business cycle, expected inflation, default risk
- Can compare long-term averages of yields across the curve for U.S. and peers.
 - Berardi, Andrea, and Alberto Plazzi. "Dissecting the yield curve: The international evidence." *Journal of Banking & Finance* 134 (2022): 106286.
 - Data run from 1999-2020 and 2004-2020.

Next: Do foreign holdings push down U.S. yields?

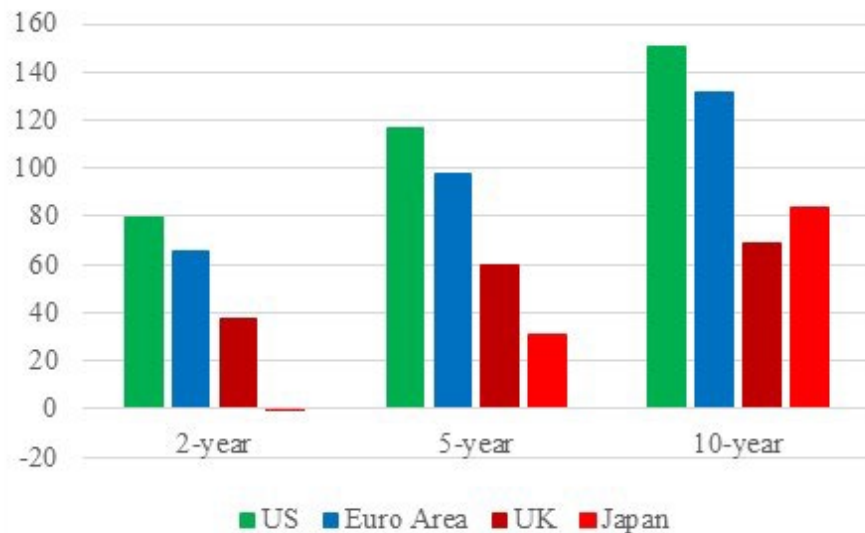
USD as a reserve currency: Yields

Green bars don't seem to be abnormally low.

Nominal yields across the US, EA, UK and Japan



Real yields across the US, EA, UK and Japan



Next: Do foreign holdings push down U.S. yields?

USD as a reserve currency: Yields

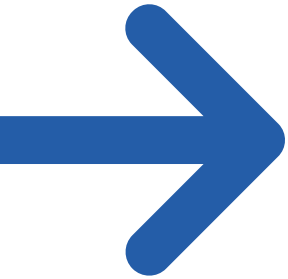
- The conventional wisdom has been that a Treasury yield premium exists.
- Little evidence that U.S. yields are lower than peers.
 - The previous slide's comparison might be simplistic.
- Expectations of higher growth and perhaps greater default risk raise US real yields compared to those of peers.
- Any U.S. Treasury yield premium would significantly benefit taxpayers.
 - The non-Fed-held, non-intragovernmental-held U.S. debt is about \$22 trillion in 2025.
 - 10 basis points on \$22 trillion debt is \$22 billion per year.

Next: What if the PRC decides to dump its assets?

USD as a reserve currency: Store of value

- What if the PRC decides to dump its USD assets?
 - Motivation could be economic or political.
 - Very disruptive in the short run (days/weeks)
 - Not a big deal over months or years.
 - A \$1 trillion Treasury sale might raise yields (maybe) 5 bp across the curve.
 - Neely, Christopher J. The Economic Effects of a Potential Armed Conflict Over Taiwan. Federal Reserve Bank of St. Louis Review, First Quarter 2025, Vol. 107, No. 3, pp. 1-23. <https://doi.org/10.20955/r.2025.03>

Next: Commodities priced in USD: Unit of account



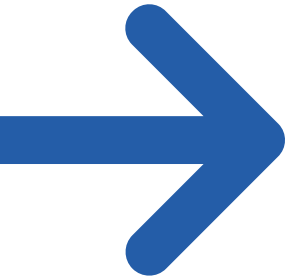
Commodities priced in USD: Unit of account

Next: Commodities priced in USD: Unit of account

Commodities priced in USD: Unit of account

- Many commodities are priced in USD.
- Most famously, oil is priced in USD.
- Why would this matter?
 - If all prices were perfectly flexible, it wouldn't matter.
 - Commodity prices tend to be a bit more stable in USD.

Next: Competitors to the USD



Competitors to the dollar

Next: JPY and EUR



Competitors to the dollar

- Yen:
 - Japanese have traditionally resisted international use.
 - Japanese financial markets are peculiar.
- Euro
 - Came into being January 1, 1999.
 - Great hope of the 1990s and early 2000s.
 - Euro debt crisis in 2011-2012 revealed a fundamental weakness.
 - Fragmented bond markets reduce its appeal.

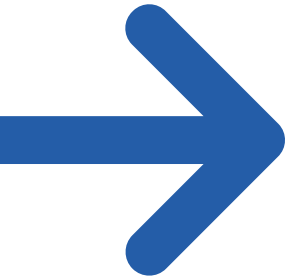
Next: RMB and BTC



Competitors to the dollar

- Renminbi (RMB)
 - Traditionally PRC financial markets are highly regulated.
 - Fear of capital controls.
 - Limited bond market.
- Crypto
 - Invented in 2008. Use is not particularly large.
 - Economists have been skeptical of crypto.
 - In June 2025, total crypto market cap is \$3.3 trillion. BTC is \$2.2 trillion.

Next: Benefits to Americans of the global role of the USD



Benefits to Americans of the global roles of the USD

Next: Benefits to Americans of the global role of the USD

Benefits to Americans of the global roles of the USD

- Interest free loan from holding U.S. currency.
 - \$40 billion per annum
- Slightly lower transactions costs in currency trading.
- Perhaps moderately more stable commodity prices
- Perhaps slightly lower yields on Federal borrowing
- Ability to sanction adversary nations.

Next: Summary of the talk

Summary

- The USD plays an outsized role in international economics.
 - Main vehicle currency: 88% of FX transactions.
 - Main reserve currency: 58% of FX reserves.
 - Difficult to see an obvious reduction in US Treasury yields.
 - U.S. cash (currency) widely used: About \$1 trillion held abroad.
 - Many commodities and tradeable goods are priced in USD.
- The overall benefit to the U.S. is modest, even marginal.

[Next: References](#)

References

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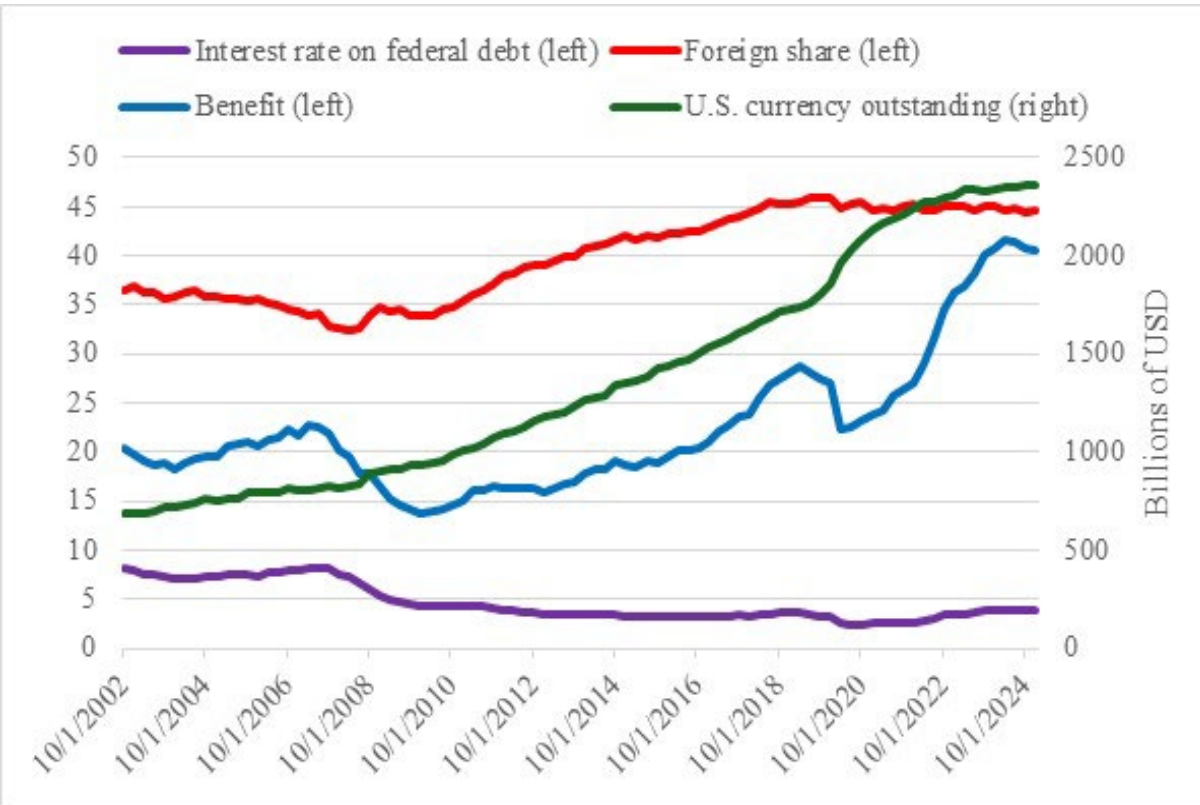


The End

What are these slides doing after “The End?”

- I sometimes put slides in after “The End” to keep related material together, in case questions come up, or I want to use it later in a related talk.
- Ordinarily, I do not use the slides after “The End” in my talk.

U.S. currency held abroad

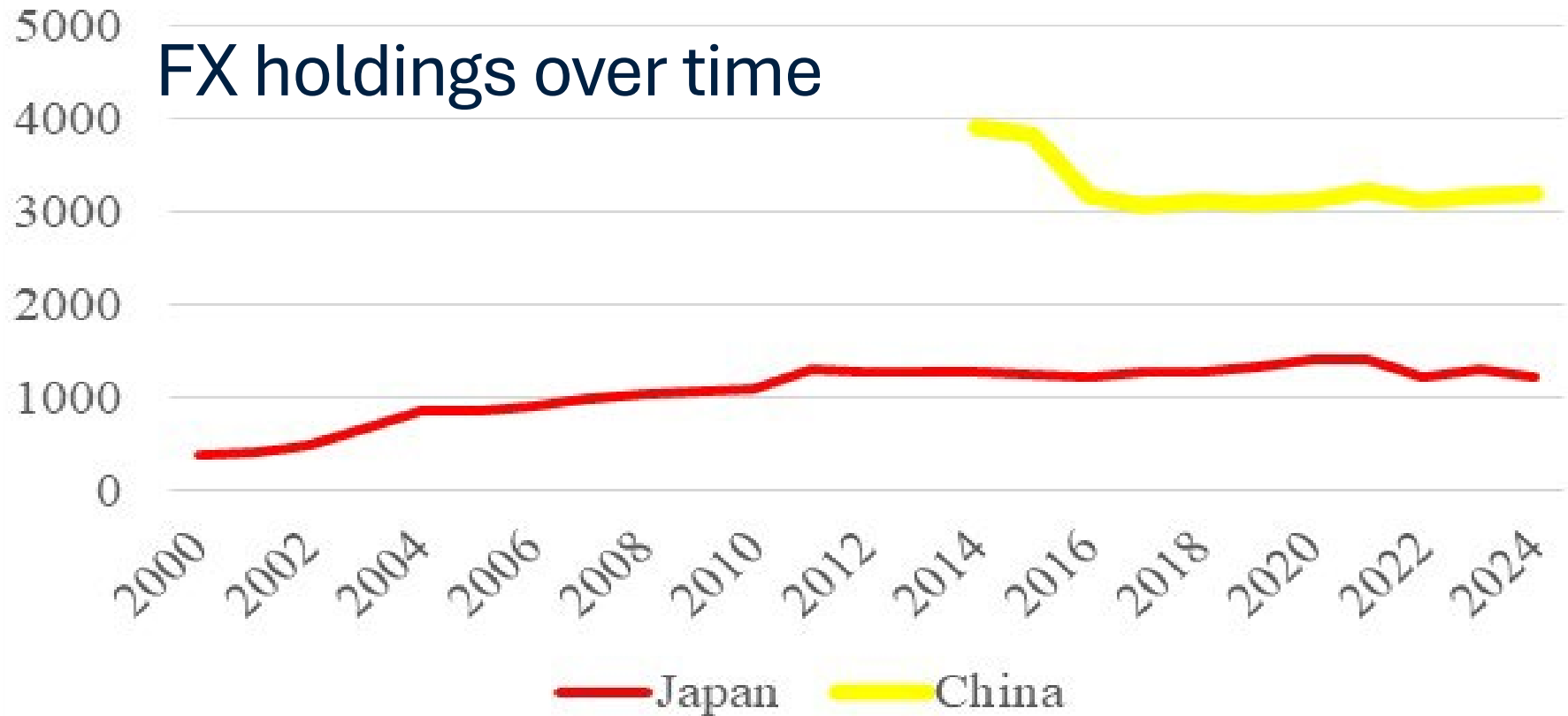


- Annual benefit = Currency abroad * interest on federal debt
- Current benefit is about \$40 billion annually.

Next: USD assets in FX reserves

Japan and China FX reserves

FX holdings over time



Next: [Switch to all foreign holdings of Treasuries](#)

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