

The Present and Future of the US Dollar

C. P. Chandrasekhar and Jayati Ghosh

In the living memory of most people on earth, the world economy has been characterized by the hegemony of the US dollar. For the most part, that has been very much a reflection of US economic, financial and military dominance, even as it has also contributed greatly to that. As the economist Charles Kindleberger had pointed out many decades ago, money is about power, and international money is about international power.

Yet the fact that American economic power has been on the wane for a while now is well known. And this obviously raises questions about the future of US dollar hegemony as well. This matter has come to global centre stage in the wake of the chaos and confusion unleashed by US President Donald Trump's tariff wars ostensibly meant to reduce US bilateral trade deficits, which have been combined with an apparently contradictory attempt to maintain dollar supremacy.

There are now two distinct views about whether the US dollar will maintain its current powerful status. One posits that US economic power is clearly on a declining trend, possibly accelerated by Trump's policies, so the dollar's role will inevitably diminish. There are different views on whether this means that another currency (most likely the Chinese RenMinBi) will take its place, or rather a period of uncertainty will set in, with several contenders (including the dollar) but no clear "winner". The other position argues that despite recent tendencies, the hegemony of the dollar is likely to continue into the medium term, because it is the only currency able to provide the role of global store of value and thereby function as the numeraire commodity for international transactions.

Both perspectives have some validity to them, simply because, as Table 1 shows, the indicators themselves appear to be somewhat contradictory. When the US dollar emerged as clearly hegemonic after the Second World War, in a system cemented by the Bretton Woods conference in 1944, the US accounted for one-third of global GDP and one-half of international trade. It clearly dominated over Europe, still devastated by the effects of the war, and was a net creditor to the United Kingdom, whose pound sterling was the previous monetary hegemon. But in 2024, the picture is much more complicated.

The US now accounts for only a quarter of global GDP, and less than 17 per cent of global trade. Yet it still dominates in export invoicing (more than half) and 57 per cent of all official foreign exchange reserves. Even more tellingly, no less than 88 per cent of all foreign exchange transactions involve US dollars. No other rival currency comes anywhere close. It may not be surprising, then, that it is still used as the currency peg or anchor for all other currencies, despite recent volatility in its value and uncertainty about US economic policies.

Table 1: Significance in the global economy (% shares)

	World GDP	Global trade	Forex reserves	Export invoicing	Forex transactions
USD	25.2	16.9	57	54	88
Euro	16.9	11.5	20	30	31
GBP	3.1	13.1	5	4	13
JPY	3.8	3.6	6	4	17
RMB	16.1	10.9	2	4	7

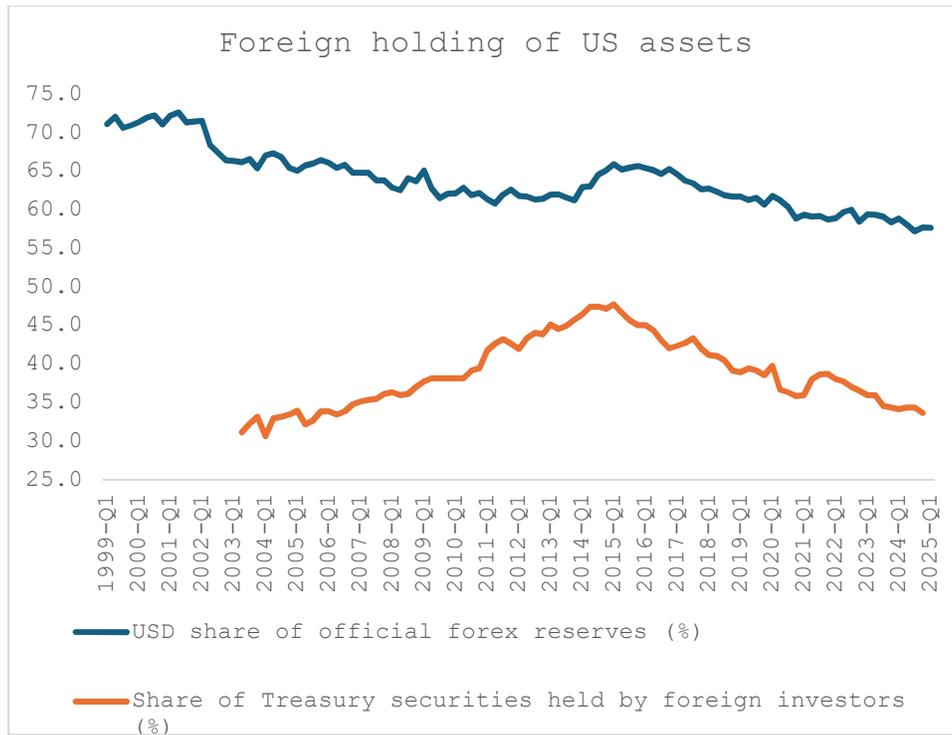
Source: Dollar Dominance Monitor, Atlantic Council,

<https://www.atlanticcouncil.org/programs/geoeconomics-center/dollar-dominance-monitor/#:~:text=The%20US%20dollar%20has%20served,of%20foreign%20reserve%20holdings%20worldwide>, accessed on 17 August 2025

Nevertheless, there are straws in the wind portending change. It is important to note that these indicators—and the data used in this analysis—predate Trump’s “Liberation Day” tariffs and the aggressive US bargaining positions taken with several trading partners, such as India, Brazil and others, which are likely to push them to consider alternative trading and financial arrangements with much greater urgency. These are medium term trends over the past decade, which point to important tendencies that are likely to be greatly accelerated and intensified by recent US behaviour.

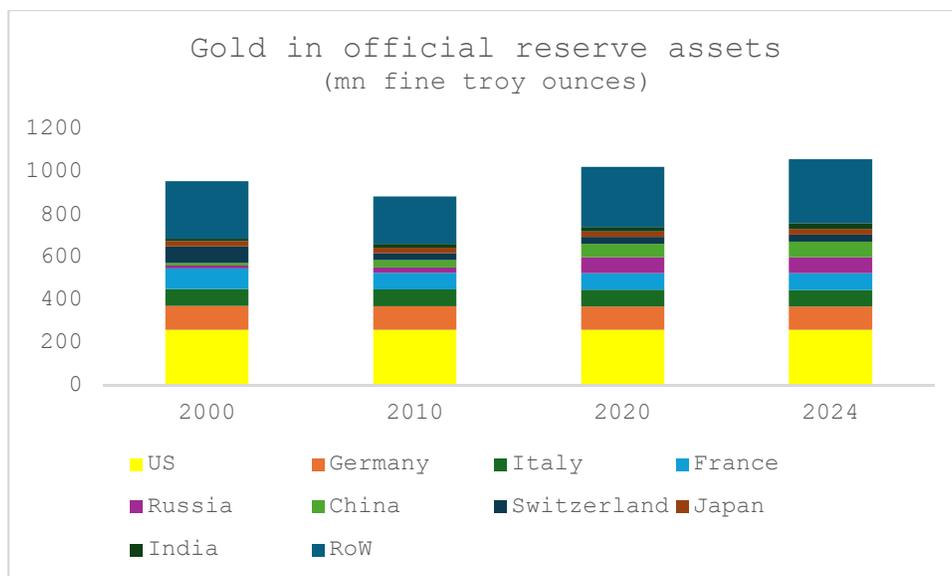
Figure 1 provides trends in two of these indicators: the share of foreign exchange reserves held in US dollars, and the share of US Treasury Securities held by foreign investors. Both are indications of the dollar’s importance as a store of value. While the dollar’s share of forex reserve holding is still significant at 58 per cent, it has come down significantly since the turn of the century, when it was as high as 72 per cent—a decline of more than one-third. The pattern of foreign holding of US Treasury Bills is similar: the share of foreign investors holding these assets rose sharply in the first two decades of this century to nearly half, peaking at 47.8 per cent in 2015Q1, but since then this has declined to 34 per cent in 2024Q4—a very significant decline in a relatively short period of time.

Figure 1.



Source: US Federal Reserve - The international role of the dollar, 2025, <https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-u-s-dollar-2025-edition-accessible-20250718.htm#fig3>, accessed on 17 August 2025

Figure 2.



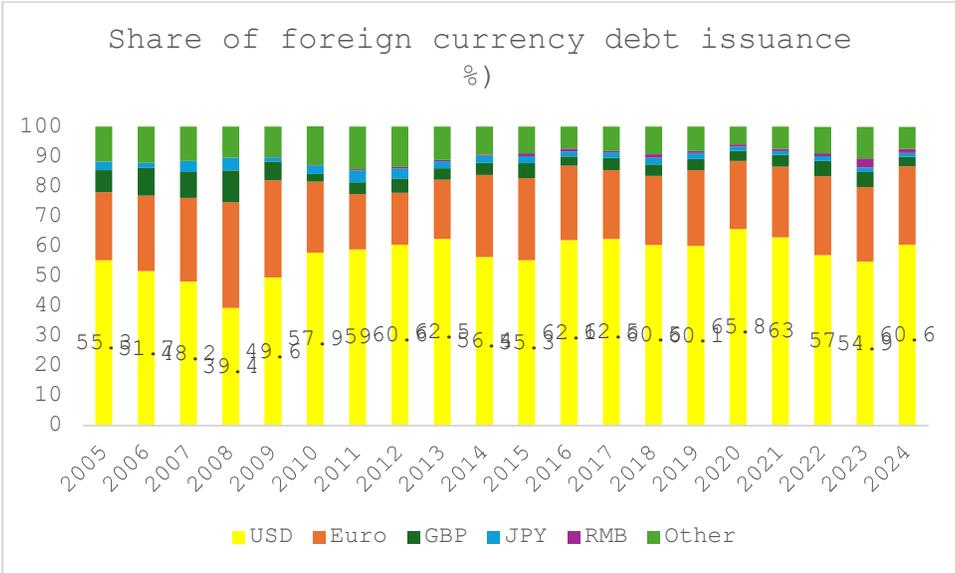
Source: <https://en.macromicro.me/collections/23654/dedollarization/120131/global-gold-in-official-reserve-assets-of-major-countries>, accessed on 17 July 2025

This has been accompanied by a significant increase in the holding of gold in official reserve assets, especially since 2010, as shown in Figure 2. Between 2010 and 2014, the amount of gold held as forex reserves increased by 58 per cent, equivalent to 173 mn fine troy ounces. This shows an interestingly divergent pattern across rich nations and middle income countries. The rich countries shown in Figure 2 either maintained the same level of gold stocks in volume terms (US, Italy, Switzerland, and France) or slightly lower (Germany). By contrast, many countries in the rest of the world increased their official gold holdings, with Russia (29 per cent) and China (22 per cent)(accounting for more than half of this. India also increased gold holding, accounting for 4.6 per cent of the increase.

This pattern has become more pronounced in the recent past, with several other countries like South Korea and Japan also becoming significant buyers of gold. A [recent move](#) by the Chinese government may also have implications for the gold market. If it does require insurers to allocate 1 per cent of assets to gold by drawing down on US dollar holdings, this would sharply increase global demand for gold.

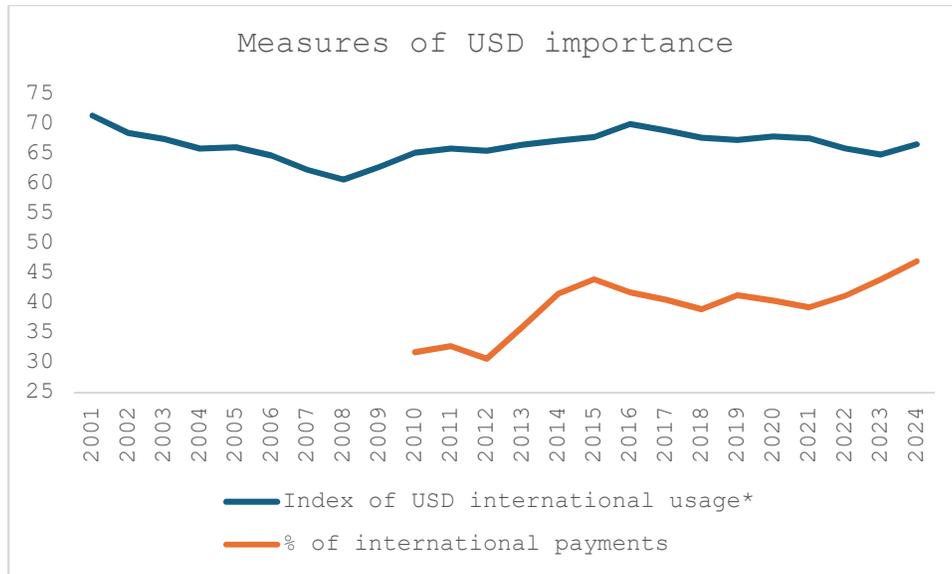
Nevertheless, the US dollar still accounts for the vast majority of financial transactions. One reason for this is its hold on the debt market. As Figure 3 shows, it holds a dominant and increasing share of foreign currency debt issuance.

Figure 3.



Source: US Federal Reserve - The international role of the dollar, 2025.

Figure 4



Source: US Federal Reserve - The international role of the dollar, 2025.

This is probably why the US Federal Reserve’s own index of USD international usage, which is a weighted average of each currency’s share of globally disclosed forex reserves (25 percent weight), forex transaction volume (25 percent), foreign currency debt issuance (25 percent), foreign currency and international banking claims (12.5 percent), and foreign currency and international banking liabilities (12.5 percent) finds the index to be largely stable since 2010. Indeed, as indicated in Figure 4, it even finds that the US dollar’s share of international payment has gone up substantially in the same period, from 32 per cent in 2010 to 47 per cent in 2024.

In other words, it is the US control over global financial markets that really drives its significance today. Its future therefore depends crucially on whether it is able to retain that control.