US dollar reserve currency, international finance USD, global currency role, dollar supremacy, economic reserve currency

The Role Of Us Dollar As The International Reserve Currency

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Explore the pivotal role of the US dollar as the world's leading international reserve currency, examining its profound impact on global trade, central bank holdings, and financial stability, alongside the advantages and challenges this status brings to the world economy.

The Role of Us Dollar As the International Reserve Currency

This book investigates the performing of the U.S. dollar as the international currency. The theory of money and the Triffin Dilemma concept are applied to assess the functions of the dollar as the international currency. The U.S. poor macro economic performance and the international financial distortion has affected to the functions of U.S. dollar as the international currency. This analysis suggests that the international currency should not function as the national currency and the international currency simultaneously.

The Global Currency Power of the US Dollar

This book explains how the US dollar serves as the primary reserve currency for the international financial system and assesses its prospects for the future. The book provides an analysis of the main factors that have given rise to the global currency power of the dollar and the key benefits that have accrued to both the United States and other countries from this arrangement. It then considers the growing costs that can be associated with the dollar-centered reserve system and the prospects for the medium-term in terms of its potential threats to global financial stability. In the light of these considerations, the book examines three alternative currency arrangements that could address some or all of the defects associated with the global currency power of the dollar. These include a shift to a multi-reserve currency system, an enhancement of the IMF’s role as an international lender of last resort and provider of global “safe” assets, and the introduction of central bank digital currencies. "A cogent, persuasive and timely look at the dollar's power." Kirkus Reviews

The Role of the Dollar as an International Currency

A powerful new understanding of global currency trends, including the rise of the Chinese yuan At first glance, the history of the modern global economy seems to support the long-held view that the currency of the world’s leading power invariably dominates international trade and finance. But in How Global

Currencies Work, three noted economists overturn this conventional wisdom. Offering a new history of global finance over the past two centuries and marshaling extensive new data to test current theories of how global currencies work, the authors show that several national monies can share international currency status—and that their importance can change rapidly. They demonstrate how changes in technology and international trade and finance have reshaped the landscape of international currencies so that several international financial standards can coexist. In fact, they show that multiple international and reserve currencies have coexisted in the past—upending the traditional view of the British pound's dominance before 1945 and the U.S. dollar's postwar dominance. Looking forward, the book tackles the implications of this new framework for major questions facing the future of the international monetary system, including how increased currency competition might affect global financial stability.

How Global Currencies Work

An examination of the role of the dollar in the global financial system which presents a long-term historical perspective on the international monetary system in this century. The main focus is on the evaluation of the global financial system in the post-war period.

Dilemmas of the Dollar

The upcoming BRICS summit is just around the corner. The five BRICS nations are reportedly planning their own gold-based reserve currency. This rumor gains traction due to several events. Firstly, the world is currently undergoing structural changes. NATO's expansion towards the east and north in Europe continues. An immediate consequence of NATO's eastward expansion is the military conflicts in Ukraine. Russia has been excluded from the SWIFT system. This exclusion means that Russian banks can no longer directly communicate with other international banks for cross-border transactions. Without access to the SWIFT network, Russia is cut off from most international payment and settlement systems. This could complicate trade with other countries and impact economic relationships. Such isolation could destabilize Russian financial markets and erode investor confidence. The exclusion from the SWIFT system is a serious measure and is to be understood as a political leverage. Thus, it's not surprising that the rumor about a potentially Yuan-backed new reserve currency is gaining momentum. Additionally, the evidently unsuccessful visit of American Secretary of State Blinken to China resulted in a sharp drop in the US dollar's value. China holds massive dollar reserves due to its trade surplus. The BRICS nations can leverage this gold to significantly reduce their reliance on the US dollar. China, furthermore, holds immense dollar reserves. If China were to sell off its substantial dollar reserves, it would have significant repercussions on the global economy and financial markets. Selling large amounts of US dollars would lead to an oversupply, reducing the dollar's value against other currencies. A depreciation of the US dollar would have far-reaching effects on the international trading community, especially countries heavily reliant on trade with the US. On the flip side, China is also dependent on the US, as a significant portion of its goods is exported there. A sudden devaluation of the US dollar could impede the competitiveness of Chinese exports, making them more expensive for US customers. This could negatively affect Chinese economic growth. The sale of dollar reserves could thus lead to losses for China if the dollar depreciates during the sale. However, the global economy is a complex network influenced by various actors and circumstances. In recent decades, the dominance of the US dollar as the world's reserve currency has played a significant role. The dollar has shaped the international trade landscape for many decades and profoundly influenced geopolitical relations. Yet, in recent years, new powers have risen, challenging the status quo. The BRICS nations - Brazil, Russia, India, China, and South Africa - have gained increasing economic importance and are pushing for a reform of the international financial system. My book, "The US Dollar and the BRICS Challenge," aims to bring readers closer to the history of dollar dominance and the emerging BRICS nations as potential counterbalances. It should be seen as an attempt to shed light on current events in the world and help better understand ongoing upheavals and restructuring. The book delves into the backgrounds that have led to the power struggles of our time and offers insights into a possible future, analyzing the implications for the global economy. The various aspects of the topic are explored, starting from the historical events that led to the emergence of dollar dominance, all the way to the current efforts of the BRICS nations to break free from this dominance and strengthen their own positions. We will examine the roots of dollar dominance, covering key milestones from the 1944 Bretton Woods Conference to the abandonment of the gold standard in 1971. The crucial role of the United States as a superpower and its economic and political interests in maintaining dollar dominance will also be scrutinized. Another part of the book focuses on the BRICS nations and their rise as economic heavyweights. Each country is examined individually to analyze its specific economic, political, and social developments. While all five countries face different challenges and opportunities, they all strive to have their voices heard in the global economic order. Their efforts to build alternative currency and financial structures are also thoroughly examined. Furthermore, the conflicts and tensions between the US dollar and the BRICS nations are closely examined. I aim to illustrate how the United States defends its dominance in the world economy by all means and takes measures to preserve the dollar's status. Simultaneously, the BRICS nations are forming their own economic alliance and seeking ways to break free from dollar dependency. This power struggle has implications for global stability and may potentially lead to a reconfiguration of the international financial architecture. Additionally, a glimpse into the future is provided. What might the world economy look like in the next few decades? What role will the BRICS nations and the dollar play? What scenarios are conceivable, and how might they affect various actors? These questions are discussed based on current developments and trends, exploring both optimistic and pessimistic scenarios. It is important to emphasize that this book cannot provide definitive answers. The dynamics between the US dollar and the BRICS nations are complex and multifaceted, and developments are still ongoing. Instead, this book aims to encourage contemplation about the current world order and the potential changes that directly affect each and every one of us. This book offers a wealth of information, analysis, and perspectives that allow readers to form their own opinions and stimulate further discussions. This book is an invitation to engage with this topic and take a look behind the scenes of the global economy. It invites you to explore the history, present, and future of dollar dominance and the BRICS nations. It is an invitation to immerse yourself in this world with me, a world full of challenges, opportunities, and uncertain perspectives. The decisions made by these two contenders could directly impact each and every one of us - therefore, we should strive to understand them, discuss them, and potentially influence them. Hermann Selchow

The US Dollar and the BRICS Challenge

An examination of the role of the dollar in the global financial system which presents a long-term historical perspective on the international monetary system in this century. The main focus is on the evaluation of the global financial system in the post-war period.

Dilemmas of the Dollar

This economic and political science work is a rigorous analysis that demonstrates that although it is a privilege and a benefit for the US to have its currency, the dollar, as the leading world reserve currency, the privilege also proves to be a very significant economic and security burden imposed on the nation.

The Exorbitant Burden

We document a decline in the dollar share of international reserves since the turn of the century. This decline reflects active portfolio diversification by central bank reserve managers; it is not a byproduct of changes in exchange rates and interest rates, of reserve accumulation by a small handful of central banks with large and distinctive balance sheets, or of changes in coverage of surveys of reserve composition. Strikingly, the decline in the dollar’s share has not been accompanied by an increase in the shares of the pound sterling, yen and euro, other long-standing reserve currencies and units that, along with the dollar, have historically comprised the IMF’s Special Drawing Rights. Rather, the shift out of dollars has been in two directions: a quarter into the Chinese renminbi, and three quarters into the currencies of smaller countries that have played a more limited role as reserve currencies. A characterization of the evolution of the international reserve system in the last 20 years is thus as ongoing movement away from the dollar, a recent if still modest rise in the role of the renminbi, and changes in market liquidity, relative returns and reserve management enhancing the attractions of nontraditional reserve currencies. These observations provide hints of how the international system may evolve going forward.

The Stealth Erosion of Dollar Dominance: Active Diversifiers and the Rise of Nontraditional Reserve Currencies

Why the dollar is—and will remain—the dominant global currency The U.S. dollar's dominance seems under threat. The near collapse of the U.S. financial system in 2008–2009, political paralysis that has blocked effective policymaking, and emerging competitors such as the Chinese renminbi have heightened speculation about the dollar’s looming displacement as the main reserve currency. Yet, as The Dollar Trap powerfully argues, the financial crisis, a dysfunctional international monetary system, and U.S. policies have paradoxically strengthened the dollar’s importance. Eswar Prasad examines how the dollar came to have a central role in the world economy and demonstrates that it will remain the cornerstone of global finance for the foreseeable future. Marshaling a range of arguments and data, and drawing on the latest research, Prasad shows why it will be difficult to dislodge the dollar-centric system. With vast amounts of foreign financial capital locked up in dollar assets, including U.S. government securities, other countries now have a strong incentive to prevent a dollar crash. Prasad takes the reader through key contemporary issues in international finance—including the growing economic influence of emerging markets, the currency wars, the complexities of the China-U.S. relationship, and the role of institutions like the International Monetary Fund—and offers new ideas for fixing the flawed monetary system. Readers are also given a rare look into some of the intrigue and backdoor scheming in the corridors of international finance. The Dollar Trap offers a panoramic analysis of the fragile state of global finance and makes a compelling case that, despite all its flaws, the dollar will remain the ultimate safe-haven currency.

The Dollar Trap

What is Reserve Currency Reserve currencies are foreign currencies that are held in considerable quantities by central banks or other monetary authorities as part of their foreign exchange reserves. Reserve currencies are also known as reserve currencies. All areas of the global economy, including foreign transactions, international investments, and financial activities, are able to make use of the reserve currency. Additionally, it is frequently referred to as a hard money or a safe-haven currency. How you will benefit (I) Insights, and validations about the following topics: Chapter 1: Reserve currency Chapter 2: Currency Chapter 3: Special drawing rights Chapter 4: Currency substitution Chapter 5: Global financial system Chapter 6: Hard currency Chapter 7: Balance of payments Chapter 8: Bretton Woods system Chapter 9: Currency board Chapter 10: Foreign exchange reserves Chapter 11: Time-based currency Chapter 12: Triffin dilemma Chapter 13: Bancor Chapter 14: World currency Chapter 15: Monetary hegemony Chapter 16: International monetary system Chapter 17: London Gold Pool Chapter 18: Currency basket Chapter 19: International use of the U.S. dollar Chapter 20: Foreign-exchange reserves of India Chapter 21: China and the International Monetary Fund (II) Answering the public top questions about reserve currency. (III) Real world examples for the usage of reserve currency in many fields. Who this book is for Professionals, undergraduate and graduate students, enthusiasts, hobbyists, and those who want to go beyond basic knowledge or information for any kind of Reserve Currency.

Reserve Currency

For more than half a century, the dollar has been not just America's currency but the world's. It is used globally by importers, exporters, investors, governments and central banks alike. This singular role of the dollar is a source of strength for the United States. It is, as a critic of U.S. policies once put it, America's "exorbitant privilege." But now, with U.S. budget deficits extending as far as the eye can see, holding dollars is viewed as a losing proposition. Some say that the dollar may soon cease to be the world's standard currency, which would depress U.S. living standards and weaken the country's international influence. In Exorbitant Privilege, one of our foremost economists, Barry Eichengreen, traces the rise of the dollar to international prominence. He shows how the greenback dominated internationally in the second half of the 20th century for the same reasons that the United States dominated the global economy. But now, with the rise of China, India, Brazil and other emerging economies, America no longer towers over the global economy. It follows, Eichengreen argues, that the dollar will not be as dominant. But this does not mean that coming changes need be sudden and dire DL or that the dollar is doomed to lose its international status. Challenging the presumption that there is room for only one true global currency, Eichengreen shows that several currencies have regularly shared this role. What was true in the distant past will be true, once again, in the not-too-distant future. The dollar will lose its international currency status, Eichengreen warns, only if the United States repeats the mistakes that led to the financial crisis and only if it fails to put its fiscal and financial house in order. Incisive, challenging and iconoclastic, Exorbitant Privilege, is a fascinating analysis of the changes that lie ahead. It is a challenge, equally, to those who warn that the dollar is doomed and to those who regard its continuing dominance as inevitable.

Exorbitant Privilege

Conventional economic wisdom has long held that the world's dominant economic power tends to possess the world's dominant currency, and that the dominance of that currency can continue even after other, more dynamic economics powers surpass the issuer of it. The paradigmatic example is GreatBritain, which had the world's biggest economy and the dominant currency in the nineteenth century. Yet even as it faded relative to the US and Germany, the pound sterling remained the world's reserve currency well into the twentieth century. Only massive systemic shocks like the Great Depressionand World War Two could knock the pound from its perch. The story of the US economy and the dollar after the war is a similar one, and many expect that the dollar will eventually lose its pre-eminence to Chinese the renminbi at some point after the Chinese economy surpasses the US economy in size. China is certainly a clear rival to the US, but as Barry Eichengreen, Marc Flandreau, Arnaud Mehl and Livia Chitu argue, economics is not a zero-sum game. In International Currencies, Past, Present, and Future, they draw from innovative data sets to argue that several national currencies can play animportant role in the global economy all at once. Rather than focusing on how one currency dominates, then, we should look at currency systems as networks. While there may be a clear leader, that does not meant that other major currencies cannot serve as international reserve hedges. Indeed, even inthe late twentieth century, when US power was at a geopolitical apex, roughly 40 percent of global foreign exchange reserves were not in dollar form. The late nineteenth and early twentieth centuries were similarly multipolar with regard to foreign exchange reserve holdings, with the mark, thefranc, and the dollar all playing important roles in a system in which the pound led. If past is prologue, we can look forward to a multipolar system in which the dollar and euro will continue to be important international currencies even if the renminbi surpasses the dollar - and the jury is out onthat. Deeply informed by history, this powerfully revisionist account of how the international monetary system operates will not only transform our understanding of the past, but also force us to reconsider our expectations of how the system will evolve in future decades.

International Currencies Past, Present, and Future

In early 2009, the world economy seemed to be headed toward irreversible decline. However, it appears that a strong dose of stimulative monetary and fiscal policy has succeeded in stabilizing the financial system and setting the stage for global recovery. But while the overall sense of doom has been replaced by one of hope, the recovery has been highly uneven. The US economy, which was at the epicenter of the crisis, still faces a long hard slog in returning to sustained growth and lower unemployment, and the continental European economies have bounced back but are unlikely to record high growth. Emerging markets are another story altogether, with China and India in particular returning to remarkably high growth since the end of 2008. The deep irony is that this pattern of recovery is setting the stage for a resurgence of the very same global macroeconomic imbalances which contributed to the onset of the crisis in the first place. While the root causes of the financial crisis lie in weak regulatory systems and failures, global imbalances permitted the problems to fester and then blow up in our faces. The dollar’s role in the global reserve pool clearly has major implications for its long-term value. Reserve accumulation by countries in the Middle East depends to a large extent on the price of oil. The other region that is likely to play a crucial role is Asia. China and other Asian emerging markets have played a dominant role in the expansion of the global reserve pool over the last decade. Restoring and maintaining global financial stability will require decisive policy actions from a number of different actors. The United States needs to get its fiscal house in order. It is premature for the United States to pull back fiscal stimuli, but a well-articulated plan that lays out a path for restoring fiscal stability is essential. Meanwhile, the G20 has taken impressive steps to coordinate global stimulus efforts, make progress on financial regulatory reform, and increase the stability of the global financial system. Ultimately, substantive actions by national governments, rather than just lofty sentiments, are needed to deal with the difficult challenges identified under this framework.

The Financial Crisis and the Future of the US Dollar as the Global Reserve Currency

For more than half a century, the U.S. dollar has been not just America's currency but the world's. It is used globally by importers, exporters, investors, governments and central banks alike. Nearly three-quarters of all $100 bills circulate outside the United States. The dollar holdings of the Chinese government alone come to more than $1,000 per Chinese resident. This dependence on dollars, by banks, corporations and governments around the world, is a source of strength for the United States. It is, as a critic of U.S. policies once put it, America's "exorbitant privilege." However, recent events have raised concerns that this soon may be a privilege lost. Among these have been the effects of the financial crisis and the Great Recession: high unemployment, record federal deficits, and financial distress. In addition there is the rise of challengers like the euro and China's renminbi. Some say that the dollar may soon cease to be the world's standard currency--which would depress American living standards and weaken the country's international influence. In Exorbitant Privilege, one of our foremost economists, Barry Eichengreen, traces the rise of the dollar to international prominence over the course of the 20th century. He shows how the greenback dominated internationally in the second half of the century for the same reasons--and in the same way--that the United States dominated the global economy. But now, with the rise of China, India, Brazil and other emerging economies, America no longer towers over the global economy. It follows, Eichengreen argues, that the dollar will not be as dominant. But this does not mean that the coming changes will necessarily be sudden and dire--or that the dollar is doomed to lose its international status. Challenging the presumption that there is room for only one true global currency--either the dollar or something else--Eichengreen shows that several currencies have shared this international role over long periods. What was true in the distant past will be true, once again, in the not-too-distant future. The dollar will lose its international currency status, Eichengreen warns, only if the United States repeats the mistakes that led to the financial crisis and only if it fails to put its fiscal and financial house in order. The greenback's fate hinges, in other words, not on the actions of the Chinese government but on economic policy decisions here in the United States. Incisive, challenging and iconoclastic, Exorbitant Privilege, which was shortlisted for the FT Goldman Sachs 2011 Best Business Book of the Year, is a fascinating analysis of the changes that lie ahead. It is a challenge, equally, to those who warn that the dollar is doomed and to those who regard its continuing dominance as inevitable.

Exorbitant Privilege

The rise of the renminbi and what it means for forex markets Chinese authorities have ambitious plans to "internationalize"the renminbi, transforming it from a tightly controlled domesticlegal tender into a global currency for international trade, heldby both private and public sector asset managers. The OffshoreRenminbi examines this impending currency revolution, outliningwhy the emergence of China as a major economic power will likelysoon be matched by a transformation of the renminbi's role in theglobal financial system. It explains how new markets for "offshore"renminbi are developing outside mainland China since the country isnot yet ready to fully open up its economy to international capitalflows, and the regulations that govern them. The potential growth for the renminbi market is vast, thanks toChina's role in the global trading community. The early stages ofthe internationalization effort were small-scale, but momentum hasgreatly increased over the past 18 months, making this book morerelevant than ever. These developments offer new opportunities (andchallenges) for corporate treasurers and investors, as China'sprofound economic success and growing prominence in global trademay transform offshore renminbi into a new global reserve currencyand a legitimate competitor to the U.S. dollar. Explores how the "internationalization" of the renminbi islikely to yield a new global currency to rival the U.S. dollar Examines "offshore" renminbi and the host of new financialmarkets they have created, from a spot FX market to Dim Sum bondsin Hong Kong Covers broad themes of interest to general readers andpolicymakers, as well as more detailed issues of practical anddirect importance to corporate treasurers and investors The Chinese government has ambitious plans to make the renminbia global currency. The Offshore Renminbi explains thecomplexities of this strategy and the dramatic implications for theglobal FX markets.

The Offshore Renminbi

For half a century, the United States has garnered substantial political and economic benefits as a result of the dollar's de facto role as a global currency. In recent years, however, the dollar's preponderant position in world markets has come under challenge. The dollar has been more volatile than ever against foreign currencies, and various nations have switched to non-dollar instruments in their transactions. China and the Arab Gulf states continue to hold massive amounts of U.S. government obligations, in effect subsidizing U.S. current account deficits, and those holdings are a point of potential vulnerability for American policy. What is the future of the U.S. dollar as an international currency? Will predictions of its demise end up just as inaccurate as those that have accompanied major international financial crises since the early 1970s? Analysts disagree, often profoundly, in their answers to these questions. In The Future of the Dollar, leading scholars of dollar's international role bring multidisciplinary perspectives and a range of contrasting predictions to the question of the dollar's future. This timely book provides readers with a clear sense of why such disagreements exist and it outlines a variety of future scenarios and the possible political implications for the United States and the world.

The Future of the Dollar

Despite major structural shifts in the international monetary system over the past six decades, the US dollar remains the dominant international reserve currency. Using a newly compiled database of individual economies' reserve holdings by currency, this departmental paper finds that financial links have been an increasingly important driver of reserve currency configurations since the global financial crisis, particularly for emerging market and developing economies. The paper also finds a rise in inertial effects, implying that the US dollar dominance is likely to endure. But historical precedents of sudden changes suggest that new developments, such as the emergence of digital currencies and new payments ecosystems, could accelerate the transition to a new landscape of reserve currencies.

Reserve Currencies in an Evolving International Monetary System

"This paper provides an historical perspective on reserve currency competition and on the prospects of the dollar as an international currency. It questions the conventional wisdom that competition for reserve-currency status is a winner-take-all game, showing that several currencies have often shared this role in the past and arguing that innovations in financial markets make it even more likely that they will do so in the future. It suggests that the dollar and the euro are likely to share this position for the foreseeable future. Hopes that the yuan could become a major international currency 20 or even 40 years from now are highly premature"--NBER website

Sterling's Past, Dollar's Future

We study the composition of central bank holdings of foreign reserves when the level of currency riskiness is endogenously determined by economic structure and policymaker preferences in reserve issuing countries. Examination of the behavior of official foreign reserves of the industrial and developing country groups in the period 1977-1984 offers support to the notion that central banks employ mean-variance criteria in selecting international reserves.

International Reserve Currencies

Meet the next global currency: the Chinese renminbi, or the "redback." Following the global financial crisis of 2008, China's major monetary policy objective is the internationalization of the renminbi, that is, to create an inter-national role for its currency akin to the international role currently played by the U.S. dollar. Renminbi internationalization is a hot topic, for good reason. It is, essentially, a window onto the Chinese government's aspirations and the larger process of economic and financial transformation. Making the renminbi a global currency requires rebalancing the Chinese economy, developing the country's financial markets and opening them to the rest of the world, and moving to a more flexible exchange rate. In other words, the internationalization of the renminbi is a monetary and financial issue with much broader supra-monetary and financial implications. This book offers a new perspective on the larger issues of economic, financial, and institutional change in what will eventually be the world's largest economy.

Renminbi Internationalization

This paper assesses the role of the deutsche mark as a key international currency. It first investigates the theoretical basis underlying the international use of a currency. Theoretical considerations indicate that several factors relating to the issuing country—including inflation performance, openness of financial markets, and trade patterns—combine to propagate the international use of its currency. The paper then discusses these factors as they relate to the deutsche mark and identifies trends in several of these determinants of international currency use that presage an expanding role for the mark. Finally, data are presented on the extent of the internalization of the deutsche mark during the 1980s which corroborate the theoretical findings.

On the International Use of Currencies

This paper examines opposing views on the euro's challenge to the dollar as an international currency. One view emphasizes Europe's large economy and diversification effects as undergirding a vigorous challenge. The other emphasizes "network externalities," particularly undergirding continued dollar dominance. The data to date support the second view but also show the euro has significantly overtaken the legacy currencies as a reserve currency. Generally, large economic size alone is insufficient to challenge the network externalities supporting vehicle currencies, but scope exists for the euro to advance as an international store of value. The paper discusses the euro's medium-term prospects.

A Broad Survey of the Past Role of the Dollar in the International Monetary Mechanism and Its Impact on the United States

Foreign exchange reserve accumulation has risen dramatically in recent years. The introduction of the euro, greater liquidity in other major currencies, and the rising current account deficits and external debt of the United States have increased the pressure on central banks to diversify away from the US dollar. A major portfolio shift would significantly affect exchange rates and the status of the dollar as the dominant international currency. We develop a dynamic mean-variance optimization framework with portfolio rebalancing costs to estimate optimal portfolio weights among the main international currencies. Making various assumptions on expected currency returns and the variance-covariance structure, we assess how the euro has changed this allocation. We then perform simulations for the optimal currency allocations of four large emerging market countries (Brazil, Russia, India and China), adding constraints that reflect a central bank's desire to hold a sizable portion of its portfolio in the currencies of its peg, its foreign debt and its international trade. Our main results are: (i) The optimizer can match the large share of the US dollar in reserves, when the dollar is the reference (risk-free) currency. (ii) The optimum portfolios show a much lower weight for the euro than is observed. This suggests that the euro may already enjoy an enhanced role as an international reserve currency ("punching above its weight"). (iii) Growth in issuance of euro-denominated securities, a rise in euro zone trade with key emerging markets, and increased use of the euro as a currency peg, would all work towards raising the optimal euro shares, with the last factor being quantitatively the most important.

The US Dollar and Its Role as a Reserve Currency

Why the dollar will remain the world's most powerful currency Monetary rivalry is a fact of life in the world economy. Intense competition between international currencies like the US dollar, Europe's euro, and the Chinese yuan is profoundly political, going to the heart of the global balance of power. But what exactly is the relationship between currency and power, and what does it portend for the geopolitical standing of the United States, Europe, and China? Popular opinion holds that the days of the dollar, long the world’s dominant currency, are numbered. By contrast, Currency Power argues that the current monetary rivalry still greatly favors America’s greenback. Benjamin Cohen shows why neither the euro nor the yuan will supplant the dollar at the top of the global currency hierarchy. Cohen presents an innovative analysis of currency power and emphasizes the importance of separating out the various roles that international money might have. After systematically exploring the links between currency internationalization and state power, Cohen turns to the state of play among today’s top currencies. The greenback, he contends, is the "indispensable currency"—the one that the world can’t do without. Only the dollar is backed by all the economic and political resources that make a currency powerful. Meanwhile, the euro is severely handicapped by structural defects in the design of its governance mechanisms, and the yuan suffers from various practical limitations in both finance and politics. Contrary to today’s growing opinion, Currency Power demonstrates that the dollar will continue to be the leading global currency for some time to come.

The Euro's Challenge to the Dollar

China's currency, the renminbi (RMB), has taken the world by storm. The RMB is well on its way to becoming a significant international currency, one that is used widely in international trade and finance. This book documents the RMB's impressive rise, with China successfully adopting a unique playbook for promoting its currency. China's growing economic might, expanding international influence, and the rise of its currency are all intricately connected. The book documents how China's government has tied these goals together, enabling faster progress towards each of them. But there are many pitfalls ahead, both for China's economy and its currency. The book shows how the government has so far navigated its way around domestic and international dangers, but enormous risks still lie ahead. The International Monetary Fund has elevated the RMB to the status of an official reserve currency, a currency that foreign central banks use to keep their rainy day funds. If China plays its cards right, with reforms that put its economy and financial markets on the right track, the RMB is going to become an important reserve currency that could rival some of the traditional reserve currencies such as the euro and the Japanese yen. But this book argues that there are limits to the RMB's ascendance-the hype about its inevitable rise to global dominance is overblown. The Chinese leadership's apparent commitment to financial sector and other market-oriented reforms-coupled with unambiguous repudiation of political, legal, and institutional reforms-sets the RMB on a clear course. It will attain the status of a reserve currency over time but has essentially given up its claim of being seen as a safe haven currency, one that investors turn to for safety. The RMB will erode but not seriously challenge the U.S. dollar's dominance in international finance.--

Optimal Currency Shares in International Reserves

The International Monetary Fund (IMF) presents the full text of a paper entitled "The Currency Composition of Foreign Exchange Reserves: Retrospect and Prospect," by Barry Eichengreen and Donald J. Mathieson and published July 2000. The paper discusses the determinants of the currency composition of international reserves, including international trade flows, financial flows, and currency pegs.

Currency Power

This study examines the determinants of the currency composition of foreign exchange reserves for both industrial and developing countries. During the period from 1976-85, our empirical results indicate that the currency composition of reserves has been influenced by each country’s exchange rate arrangements, its trade flows with reserve currency countries, and the currency of denomination of its debt-service payments. The evidence is consistent with the view that managing the currency composition of a country’s net foreign asset position is done more cheaply by altering the currency of denomination of assets and liabilities that are not held as reserve assets.

On the SDR

This book examines essential problems in the current International Monetary System, especially those concerning the International Standard. To do so, it focuses on the different monetary systems of today’s major currencies – the US dollar, the euro and the CNY, as well as the performance of the standards used in the international monetary system, i.e., the SDRs. In addition, it projects the potential consequences of including the Chinese CNY in the current SDR system, thus proposing a reform of the SDRs. The analytical research is mainly based on a performance comparison of the major international standards in the current international monetary system. divThe author illustrates that the political/policy reactions and economic philosophies underlying each monetary system constitute not only reasonable responses to the current international monetary system, but also fundamental factors in decisions concerning changes to or reforms of the international monetary system.div>

Gaining Currency

The success of European Economic and Monetary Union (EMU) will depend on the stability of the euro. The monetary policy framework is yet to be decided, but is likely to involve either money or inflation targeting. Stochastic simulations compare the outcomes for major macroeconomic and financial variables pre- and post-EMU under both policy rules, as well as under an inflation targeting rule that includes output. Implications for the euro as a reserve currency are examined in the light of the expected returns and covariances among reserve currencies. The role of the exchange rate as an indicator and incentives for policy coordination with other major countries are also discussed.

The Currency Composition of Foreign Exchange Reserves

Recent sanctions on the use of Russia's international reserve assets seem likely to reduce the appeal of US dollar reserves as a "shock absorber" for international payments. But international reserves are also a means to reassure foreign investors that problematic countries will not confiscate their investments. The "collateral" motive for holding dollar reserves has been enhanced by the demonstration that the United States is willing and able to sanction misbehavior. Geopolitically risky countries now more than ever need to reassure foreign investors that their investments are safe from expropriation. We conclude that recent events will strengthen the role of the dollar as the key international reserve currency.

Currency Composition and Foreign Exchange Reserves

International monetary reform is of vital importance to the countries of the world. Although many studies have been made of the structure and problems of the international payment mechanism, few provide an analytical survey of the international monetary system. This study analyzes the structural and operational limitations of past systems as well as the major reform proposals for modifying and/or replacing the current system with a new payment mechanism. The authors describe the structure and nature of the international payment system and identify the issues relating to international adjustment, liquidity, and confidence. They discuss the nature of international liquidity, including liquidity's purpose, sources of demand and supply, and potential shortcomings. They analyze the theoretical and empirical implications of the gold standard. Of primary concern is the extent to which the actual operations of the system corresponded to the theoretical role of the gold standard, and the nature and limitations of the so-called dollar-gold system that prevailed in the past quarter century until 1971. The major reform proposals of the international payment mechanism are next discussed. Included are the proposals of historical interest such as Keynes, Triffin, Bernstein, Stamp, Angell, Rueff, and the currently debated issues of the Special Drawing Rights standard, freely floating exchange rates, and the wider-band and crawling-pegged exchange rate mechanisms. Finally the authors analyze the nature, operation, and future role of the managed float exchange rate system, which resulted from the international monetary crisis of 1973. Of particular interest are the effects of the Organization of Petroleum Exporting Countries' (OPEC) cartel on the U.S. dollar as a reserve currency, and the monetary effects of the cartel's balance-of-payments surplus on the world financial markets. This study provides the historical background, the institutional framework, and a balanced analysis of problems involved in the international monetary system. It will be of interest to all students of economics and finance, and should be read by anyone wishing to understand the world of ever-expanding trade.

The Past and Future of International Monetary System

Edited by George M. von Furstenberg, this volume presents the rethinking of the functions and purposes served by international monetary arrangements at leading universities, banks, and official institutions.

Characteristics of the Euro, the Demand for Reserves, and Policy Coordination Under EMU

The dollar has been the dominant currency of the world economy for almost a century; since 2002, the euro has gained widespread international acceptance resulting in important institutional, economic and financial changes both for the euro zone, the United States and the world economies, affecting foreign exchange and financial markets as well as economic activities around the world. In years to come, the international role of the euro will hinge on the validity of the fundamental idea underlying its creation, namely that important components of sovereignty can be pooled and shared among nations in the pursuit of common economic and political objectives. This key book assesses the international role of the euro, discusses its impact on global financial markets, shifting global exchange rate relationships and their implications. With input from various disciplines (economics, business and political science), it foments discussions intended to facilitate an exchange of ideas among academics, practitioners and the local business community.

US Sanctions Reinforce the Dollar's Dominance

This paper presents the most comprehensive and up-to-date panel data set of invoicing currencies in global trade. It provides data on the shares of exports and imports invoiced in US dollars, euros, and other currencies for more than 100 countries since 1990. The evidence from these data confirms findings from earlier research regarding the globally dominant role of the US dollar in invoicing - despite the comparatively smaller role of the US in global trade - and the overall stability of invoicing currency patterns. The evidence also points to several novel facts. First, both the US dollar and the euro have been increasingly used for invoicing even as the share of global trade accounted for by the US and the euro area has declined. Second, the euro is used as a vehicle currency in parts of Africa, and some European countries have seen significant shifts toward euro invoicing. Third, as suggested by the dominant currency paradigm, countries invoicing more in US dollars (euros) tend to experience greater US dollar (euro) exchange rate pass-through to their import prices; also, their trade volumes are more sensitive to fluctuations in these exchange rates.

The International Monetary System

Will the sun set on the greatest currency in the history of the world? For decades the dollar has been the undisputed champ. It's not only the currency of America but much of the world as well, the fuel of global prosperity. As the superengine of the world's only superpower, it's accepted everywhere. When an Asian company trades with South America, those transactions are done in dollars, the currency of international business. But for how much longer? Economists fear America is digging a hole with an economy based on massive borrowing and huge deficits that cloud the dollar's future. Will the buck be eclipsed by the euro or even China's renminbi? Should Americans worry when the value of the mighty U.S. dollar sinks to par with the Canadian "loonie"? Craig Karmin's in-depth "biography" of the dollar explores these issues. It also examines the green-back's history, allure, and unique role as a catalyst for globalization, and how the American buck became so almighty that $ became perhaps the most powerful symbol on earth. Biography of the Dollar explores every aspect of its subject: the power of the Federal Reserve, the inner sanctums of foreign central banks that stockpile the currency, and the little-known circles of foreign exchange traders that determine a currency's worth. It traces the dollar's ascendancy, including one incredibly important duck-hunting trip and the world-changing Bretton Woods Conference. With its watermark, color-shifting inks, and a presidential portrait that glows under ultraviolet light, the dollar has obsessed foreign governments, some of which have tried to counterfeit it. Even Saddam Hussein, who insisted on being paid in euros for oil, had $750,000 in hundred-dollar bills when captured. Yet if a worldwide currency has enabled a global economy to flourish, it's also allowed the United States to owe unbelievable, shocking amounts of money—paying hundreds of millions of dollars every single day just in interest on foreign debt; that's raised concerns that the dollar standard may not be sustainable. Any threat to the dollar's privileged status would do much more than hurt American pride. It would mean U.S. companies and citizens would not be able to borrow at the low rates they have become accustomed to. The dollar's demise would impact the rest of the world, too, boosting the costs of trade and investment if no other currency was able to play the same crucial role. Ultimately the dollar system may weaken, but it should endure—a while longer, at least; it's in few people's interest to see it fail, and there is still no credible alternative. Biography of the Dollar is must reading for anyone who wants to understand what truly makes the world go 'round—and whether it will continue to spin the way we want it to.

International Money and Credit

The €uro and the Dollar in a Globalized Economy