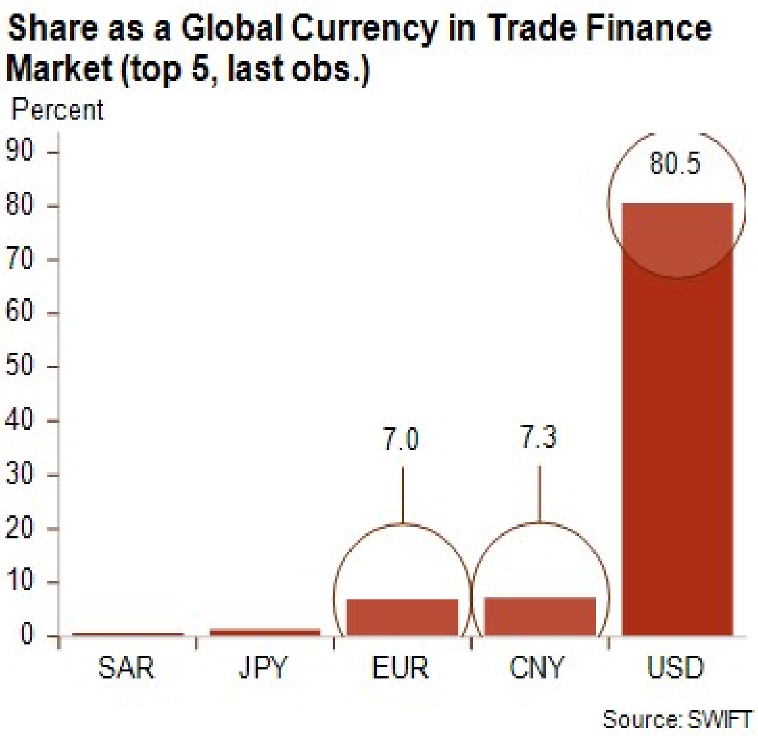
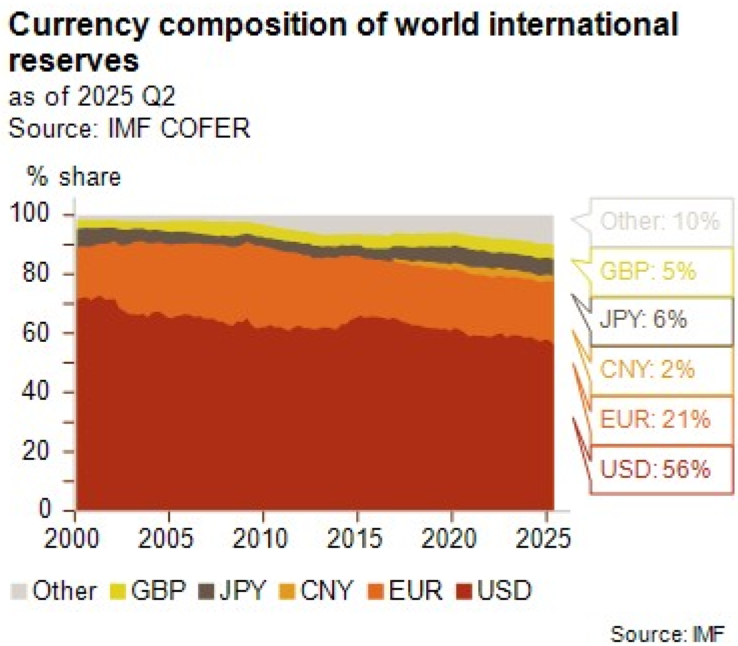
The reign of the dollar: enduring or eroding? | Credendo

Recent developments — including the sharp rise in US tariffs, the Mar-a-Lago Accord, the rapid adoption of stablecoins, and China's efforts to internationalise the renminbi — have reignited the debate over which currency or currencies might emerge as the next dominant global reserve currency. This article seeks to provide an insight on the current situation and perspectives.

USD as the prevailing dominant currency… for now



According to SWIFT data, the USD is used in over 80% of trade finance transactions. It is followed by the Chinese renminbi, the share of which has grown significantly in recent years, rising from 2.5% in December 2017 to 7.3% as of September this year. The euro has also maintained a strong presence. A similar trend can be observed in the composition of gross international reserves; although the Chinese renminbi's importance continues to increase, its overall share remains small. The US dollar retains its dominant position, although the proportion of reserves held in USD has decreased to 56%, as of June 2025.



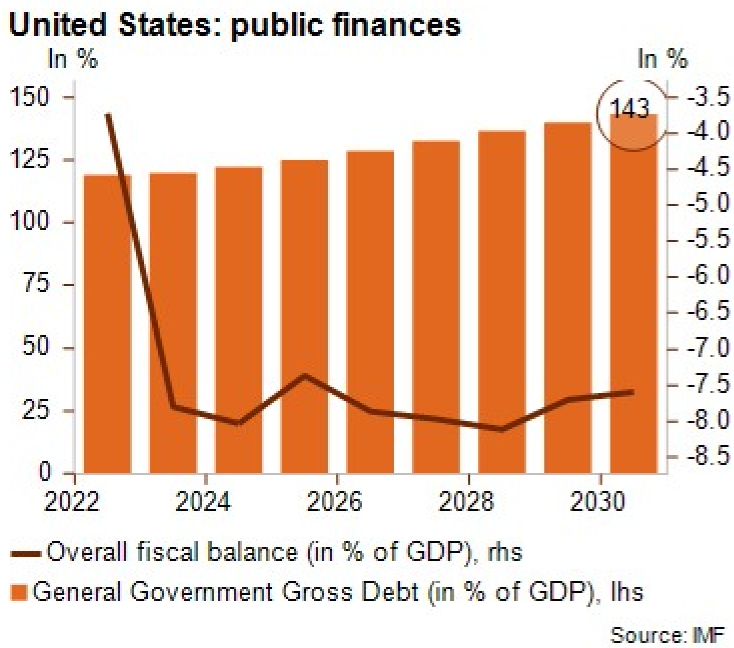
Pros and cons of dominant currency status

The US dollar, as the dominant world currency, serves as a medium of exchange (including for cross-border payments and lending), a unit of account and a store of value for international transactions. This status confers significant advantages upon the USA, such as increased seigniorage revenue, access to cheaper external financing, substantial influence of its monetary policy on global financial conditions, and economic stability through diminished exchange rate risk. The USD status also provides political leverage, notably in the imposition of sanctions and the provision of emergency financial support (see, for example, the recent swap line with Argentina). Despite these benefits, there are nevertheless certain challenges, including the risk of asset bubbles as a result of its safe haven status, a potential loss of competitiveness due to currency appreciation, and the responsibility to supply global liquidity during periods of financial stress (as demonstrated by swap lines extended by the US Fed during the global financial crisis of 2008–9 and the COVID-19 pandemic in early 2020).

USD dominance explained: strengths and emerging threats

The USD has maintained its position as the world's leading reserve currency for decades, underpinned by several fundamental factors. Firstly, the USA has the world's largest economy as well as the largest, most developed and most liquid financial markets, and is the second-largest export market. Furthermore, its considerable military power continues to grant the USA huge geopolitical influence. It has robust, transparent and reliable institutional frameworks. Its legal system, independent central bank and regulatory framework have historically inspired trust and stability. In addition, the established dominance of the US dollar creates a self-reinforcing network.

Nonetheless, several challenges to the US dollar's dominance have emerged. Some countries have started seeking alternatives due to the dollar being employed as a tool for enforcing wide-ranging sanctions; for example, after facing US and European sanctions in 2022 — including the removal of certain banks from SWIFT — Russia began exploring other payment systems. There are also concerns regarding the sustainability of US public finances, particularly following significant tax cuts under the "One Big Beautiful Bill" Act passed in July this year. These tax cuts are unlikely to be offset by increased import taxes and could place additional pressure on fiscal sustainability, as shown in the graph, which indicates that US fiscal deficit is expected to remain high and that public debt is expected to increase to more than 140% of GDP by 2030.



Furthermore, changes in domestic, trade and foreign policy under the second Trump administration have led to doubts about the quality of US institutions and the independence of the Federal Reserve (Jerome Powell's term as Fed governor ends in May 2026), whilst also heightening geoeconomic fragmentation. Consequently, trust in the USA as a reliable security and trading partner has diminished. All these developments may, in the long term, contribute to the weakening of the USD's status as a global currency.

To enhance the global standing of the USD — as well as to stimulate demand for US Treasury Bonds and establish the United States as the "crypto capital of the world" — US authorities are actively promoting the adoption of USD-pegged stablecoins (see the approval of the GENIUS Act in July 2025). Furthermore, legislation such as the "Anti-CBDC Surveillance State Act" (July 2025) prohibits the Federal Reserve from issuing a Central Bank Digital Currency. Collectively, these measures reflect a strategic decision by the Trump administration to privatise the issuance of digital currency, thereby allocating a portion of seigniorage revenue to the private sector.

The growing global adoption of USD-pegged stablecoins, particularly in cross-border payments, carries notable implications for the USA. Issuers of these stablecoins have become significant purchasers of US Treasury securities, potentially offering an additional financing channel for the US government whilst reinforcing the international appeal of the dollar.

Risks related to the fast adoption of stablecoins

Nonetheless, these developments pose certain risks to the world economy. The stablecoin sector is highly concentrated, with USDT (issued by Tether, which was recently downgraded by S&P amid concern about reserves and risk management practices) and USDC (issued by Circle) as its principal players. Although subject to US regulation, stablecoins remain vulnerable to liquidity risks — such as large-scale simultaneous withdrawal requests that could force the fire sale of reserve assets (including short-term US Treasury bills) — as well as technological vulnerabilities like cyber-attacks. Widespread adoption of stablecoins across various jurisdictions could challenge the effectiveness of domestic monetary policies, foreign exchange regulations and capital controls. In response to these concerns, the European Union has implemented the Markets in Crypto-Assets Regulation (MiCA), allowing only authorised crypto-assets to be traded on regulated EU platforms. Because Tether did not seek MiCA authorisation, it is no longer available on regulated platforms within the EU.

Could the euro overtake the USD as the leading currency?

The euro is currently the world's second-largest currency in terms of composition of reserves. The Eurozone has a robust institutional framework, is the largest export market globally, and possesses sizeable, albeit fragmented, economies and financial markets. Nevertheless, the widespread adoption of the euro as a dominant global currency is hindered by the fact that it is a union of sovereign states with limited fiscal integration and the absence of a unified and strong military force. On a positive note, the European Central Bank (ECB) plans to introduce a digital euro by mid-2026, which is expected to further strengthen the euro's usage.

Could the renminbi become the top currency?

Although China has the world's second-largest economy, significant external assets (which help balance its high public debt), notable and rising military power, and considerable and growing geopolitical influence, the global use of the renminbi is still limited.

In recent years, China has sought to expand the currency's use through partial capital flow liberalisation, central bank swap lines, the establishment of the Cross-Border Interbank Payment System (CIPS) and launching a digital currency.

An increasing number of countries facing financial and economic challenges have been turning to China's central bank swap lines for liquidity support. These arrangements, which typically carry higher interest rates than IMF loans and do not require policy conditions, are being chosen over traditional IMF assistance. This trend is expected to accelerate due to growing geopolitical tensions and shifts toward a new global order. The movement towards China playing a key role as an international lender of last resort for many developing countries is ongoing, and is likely to affect the structure of the international financial and monetary system. As highlighted in an NBER paper on the role of China as international lender of last resort, this evolution could result in a system that is more multipolar, less institutionalised and less transparent, making debt sustainability risks harder to identify and manage.

The US's weaponisation of the USD in the imposition of sanctions has contributed to China's initiative to establish an alternative to SWIFT (the prevailing global messaging system). In 2015, China launched the Cross-Border Interbank Payment System which cannot yet fully replace SWIFT's core functionality, as "indirect" participants still depend on SWIFT to transmit payment messages related to CIPS transactions. Direct participants (mainly Chinese banks) are able to send messages via China's proprietary platform.

Despite these efforts to internationalise the renminbi, capital controls remain a major barrier to wider renminbi adoption. Nevertheless, the currency is increasingly being used in bilateral trade with China and is seeing growing use in cross-border lending, as demonstrated by Kenya's recent decision to convert three US dollar-denominated loans into Chinese renminbi. Going forward, the renminbi is expected to play an even larger role internationally, though it will continue to operate under strict oversight from Chinese authorities. This development aligns with China's long-term strategy to decrease reliance on the USD and to shield its economy from potential US sanctions.

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