

## ECONOMICS

# RESERVE CURRENCY: HOW SECURE IS THE POSITION OF THE US DOLLAR?

Dr. Jörn Quitzau, 06 May 2025

*The US dollar has been under pressure since Donald Trump escalated his tariff policy at the beginning of April. Will the US currency be able to maintain its dominant role as a transaction and reserve currency? Due to the tariff policy, high national debt and high fiscal deficits, the image of the US dollar has been damaged. However, it still has one major advantage: the lack of real alternatives.*

What about the US dollar and its role as the world's reserve currency? Since the global financial crisis, the dollar's dominance has been called into question from time to time. Nevertheless, there have never been more than a few scratches on the image of the world's most important currency. The dollar has always been irreplaceable.

It was no surprise that there was an intense debate about the dollar during and after the global financial crisis, as the financial crisis had its origins in the US. The debate was fueled by the subsequent economic problems and the sharp rise in US government debt. However, it soon became clear that the swansongs for the US dollar were premature.

Two years ago, the debate was revived as China and several other countries attempted to push back the US dollar as a transaction currency. This was compounded in the first half of 2023 by the renewed dispute over the debt ceiling in the US. Whenever the debt ceiling is reached, the US is threatened with a technical default. However, this would be a default due to politically self-imposed restraints. This differs from a genuine sovereign default, in which a country can no longer find lenders due to a loss of confidence in the state's ability to repay its debts. After a long back and forth, the American parties reached an agreement just in time and averted the threat of technical default.

Once again, the swansong for the US currency came too soon. In times of crisis, the dollar continued to be the global safe haven. The US dollar is still the undisputed number one transaction and reserve currency, accounting for almost 90 percent of all international foreign exchange transactions. As a reserve currency, it is also the undisputed leader with just under 60 percent. The euro follows in second place with around 20 percent. The euro has its own problems, which is why it has not been able to improve its importance as a reserve currency as desired in the past.

The US currency benefits considerably from the lack of a serious alternative. A currency thrives on trust. Doubts about the US dollar are not entirely unjustified – in view of the high public debt, the persistent budget deficits and now also the economic policy of the Trump government. The political turmoil and social tensions are also an issue. However, it is not about absolute confidence in a currency, but about relative confidence. So the question is: how trustworthy is the US dollar compared to the alternatives that actually exist?

This shows that none of the other major currencies have a clean record either. The US dollar has therefore rightly enjoyed greater confidence than its potential competitors. This is particularly true in comparison to the Chinese yuan. Who would want to keep currency reserves in an autocratic country rather than in the democratic US? Japan has around twice as much public debt as the US and also has the oldest population in the world. In the eurozone, design flaws are becoming apparent from time to time that undermine confidence in the monetary union. From a geopolitical perspective, too, the outlook for the eurozone clouded over after the Russian war against Ukraine. And cryptocurrencies do not appear to be suitable as a real alternative in the foreseeable future either.

What criteria must an internationally significant currency fulfill? What are the requirements for a reserve currency?

- **Price stability.** A currency meets the function of preserving value when the past, current and expected inflation rate is low. This also includes trust in the country's central bank, as it is responsible for price stability.
- **Stable exchange rate.** Only small changes in the exchange rate are important for foreign investors and borrowers. A strong devaluation of the dollar devalues the capital of international investors. A strong appreciation increases the real value of foreign borrowers' loans.
- **Convertibility.** In order to be able to park or withdraw funds at any time, a currency must be freely convertible. Legal certainty also plays an important role here.
- **Size of the capital market.** The capital market should be large and deep in order to be able to process large capital flows.
- **Political weight.** Political weight, which ultimately also includes military strength, is important in order to secure and assert interests.
- **Network effect.** The use of a widely used currency brings with it a network effect, which means a competitive advantage for the incumbent reserve currency.

In the past, the US dollar did not meet these criteria perfectly in every respect, but it was clearly the best compared to the existing alternatives. Does this still apply today? Donald Trump's attacks on the independence of the Fed and the goal of a deliberately weaker dollar exchange rate are at least likely to reduce the US dollar's lead. If international investors were to lose confidence in the American rule of law, this would be another serious setback. However, we are not there yet. For the time being, the US capital market and the US dollar are virtually indispensable for the global economic and financial system. The dollar will therefore likely retain its dominant role for the time being – also due to a lack of alternatives.



## Disclaimer

Bergos AG is an independent Swiss Private Bank focusing on private wealth management. Bergos emerged in 2021 with a new shareholder base from its former mother company, the Berenberg Group founded in 1590, and has been serving international private clients and entrepreneurs in the Swiss financial center for over thirty years. Its headquarters are in Zurich with an office in Geneva. The Swiss Private Bank is dedicated to "Human Private Banking" and specializes in wealth management and advisory services. With more than 130 employees, the focus is on providing expert guidance in all known liquid and non-liquid asset classes, as well as alternative investments and private markets. Following a "beyond money" approach, we also offer expertise in art collecting and philanthropy. For entrepreneurial clients, Bergos offers access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic, cross-generational service that focuses on security, neutrality, internationality and openness to the world.

This publication only serves information and marketing purposes. The information provided here is not legally binding and does not constitute financial analysis, a sales prospectus, asset management, or investment advice, and is not a substitute for legal, tax, or financial advice.

© Copyright Bergos AG.  
All rights reserved