The Fed - Geopolitics and the U.S. Dollars Future as a Reserve Currency

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I survey the role of geopolitics and sanctions risk in shaping the U.S. dollar's status as the primary currency used for international reserves. Without changes in the economic incentives for holding FX reserves in U.S. dollar assets, an increased threat of sanctions is unlikely to drastically reduce the dollar share of FX reserves. Currently, around three-quarters of foreign government holdings of safe U.S. assets are by countries with some military tie to the U.S. Even a reduced reliance on the U.S. dollar for trade invoicing and debt denomination by a large bloc of countries less geopolitically aligned with the U.S. would be unlikely to end U.S. dollar dominance.

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