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Xenocurrency

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What is a Xenocurrency

Xenocurrency is a currency that circulates or trades in markets outside of its domestic borders. The name derives from the Greek prefix "*xeno*," meaning foreign or strange.

Today, use of the term is infrequent, perhaps due to the somewhat negative connotation of the word "Xeno." Xenophobia, for example, means an irrational fear or hatred of foreigners. Foreign currency, therefore, has become the preferred term when referring to a non-domestic currency.

BREAKING DOWN Xenocurrency



xenocurrency in Mexico, especially for large transactions in real estate and other business activities.

The term xenocurrency was developed in 1974 by Austrian-American economist Fritz Machlup, who served as president of the International Economic Association from 1971 to 1974. Machlup used the phrase to refer to deposits and loans denominated in currencies other than that of the country where the bank is resident.

Xenocurrency investments can be risky, since they are complicated by many factors, including currency fluctuations and conversion risks. Risks come when deposits are in a rising domestic currency market, where the foreign investment may result in lower returns when converting the funds back into the home currency. However, the opposite is valid for investments in declining domestic currency. Collectively, these risks are known as [foreign currency effects](#).

During a currency crisis, a country's government might place restrictions on the amount of xenocurrency which travelers may take out of the country. For instance, after the U.S. withdrew from the Iran nuclear deal in May 2018, the Iranian rial plunged to a record low against the U.S. dollar. The Central Bank of Iran reduced the allowance for the amount of foreign currency removed from the country by one-half.

Xenocurrency and Euro Currency

The name euro-currency applies to money deposited into a European bank outside of the country of origin of the currency. The phrase xenocurrency is frequently used synonymously with [euro currency](#). To receive the euro currency name a sum of money need not be that of a European Union country. For example, the Korean won, deposited in an American bank by a Korean business would still be considered euro currency. The term euro currency is frequently used in international trade and for foreign loans.

Initially, this use of the term xenocurrency referred exclusively to non-European deposits held in European banks. Today, its purpose is more generic.

Similarly, the phrase xeno-market is often used interchangeably with the term [eurocurrency-market](#). Eurocurrency-market refers to a money market which trades in xenocurrency. Banks, multinational corporations, mutual funds and hedge funds use the eurocurrency market. These entities use the market because they wish to circumvent