

The World Still Speaks in U.S. Dollars

Confidence in the world's reserve currency is in doubt, leaving an opening for alternatives like the euro. But it won't be easy.



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The U.S. dollar has fallen about 9 percent in the past three months, according to an index that tracks its performance against a basket of major trading partners. Not since the 1970s has the currency performed so badly in a president's first 100 days.

The drop isn't surprising. The U.S. economic outlook is far cloudier than it was on Inauguration Day, as President Trump's tariffs set the stage for slower growth and higher inflation. U.S. assets look far less attractive now.

But could there be something more existential afoot? Questions are swirling about the dollar's global standing and whether after more than seven decades as the world's most important currency, it's on the cusp of shedding that status.

Trump's policies and his threats to longstanding norms like the political independence of the central bank have prompted a rethink among investors about how much more exposure they want to have to U.S. assets. That skepticism looks likely to endure. "Something is in motion that is irreversible," said Jens Nordvig of the research firm Exante Data.

There are obvious caveats. Just because the dollar is weaker now doesn't mean it has lost all its primacy. A sudden shift away from the United States still seems far-fetched because there are few places to go.

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“The rest of the world is eager, if not desperate, to reduce reliance on the dollar as a payment and reserve currency,” said Eswar Prasad, a former official at the International Monetary Fund who is now an economics professor at Cornell University.

Attempts to weaponize the dollar through policies like sanctions would be less potent, and having multiple sources of liquidity during times of stress could make for a less fragile global financial system, some currency experts say.

“The reality, though, is that there are no robust alternatives,” Mr. Prasad said.

The euro is perhaps best positioned to eventually seize the opportunity created by Mr. Trump. It is a widely used and favored currency among central banks. There are now more euro-denominated safe assets available, as Germany and other countries increase spending. And the European Central Bank has also shown more willingness to serve as the region’s lender of last resort, a crucial function for an international currency.

When would the euro become a reserve currency? “We’re at the best position to become one in some years,” Luis de Guindos, the E.C.B.’s vice president, said recently. But there would have to be much more meaningful economic, financial and regulatory integration across Europe for that to happen. It would take time.

Other alternatives like China’s renminbi face even higher hurdles. Investors cannot transact freely in the country’s financial markets because of capital controls, and the currency is heavily managed by the government — two insurmountable barriers to the Chinese currency assuming a more global role.

Another idea that has gained traction is a shared currency issued by the so-called BRICS group of countries, which includes Brazil, Russia, India, China and South Africa. Already some of the participating countries, like Brazil and India, have

backed off from the proposals following threats by Mr. Trump that they would have to “wave goodbye to America” if they did so.

Shifting away from the dollar presents as big of a challenge as trying to shift the world away from using English, said Stephen Jen, a currency expert who runs Eurizon SLJ Capital.

“People can bicker on whether French is more beautiful or German more precise, but none of that matters — when more people speak English, more will learn to speak English,” he said. “Dollar liquidity is deep. No one administration can destroy the dollar, certainly not President Trump in 100 days.”

Colby Smith covers the Federal Reserve and the U.S. economy for The Times.