

# International Currency: Future of the Dollar & the Euro

“Reserve currencies come and go.

Over the past two and half thousand years there have been a dozen currencies that no longer exist.

Sterling lost its status in the first half of the last century,

and

the dollar will lose its status in the first half of this century”

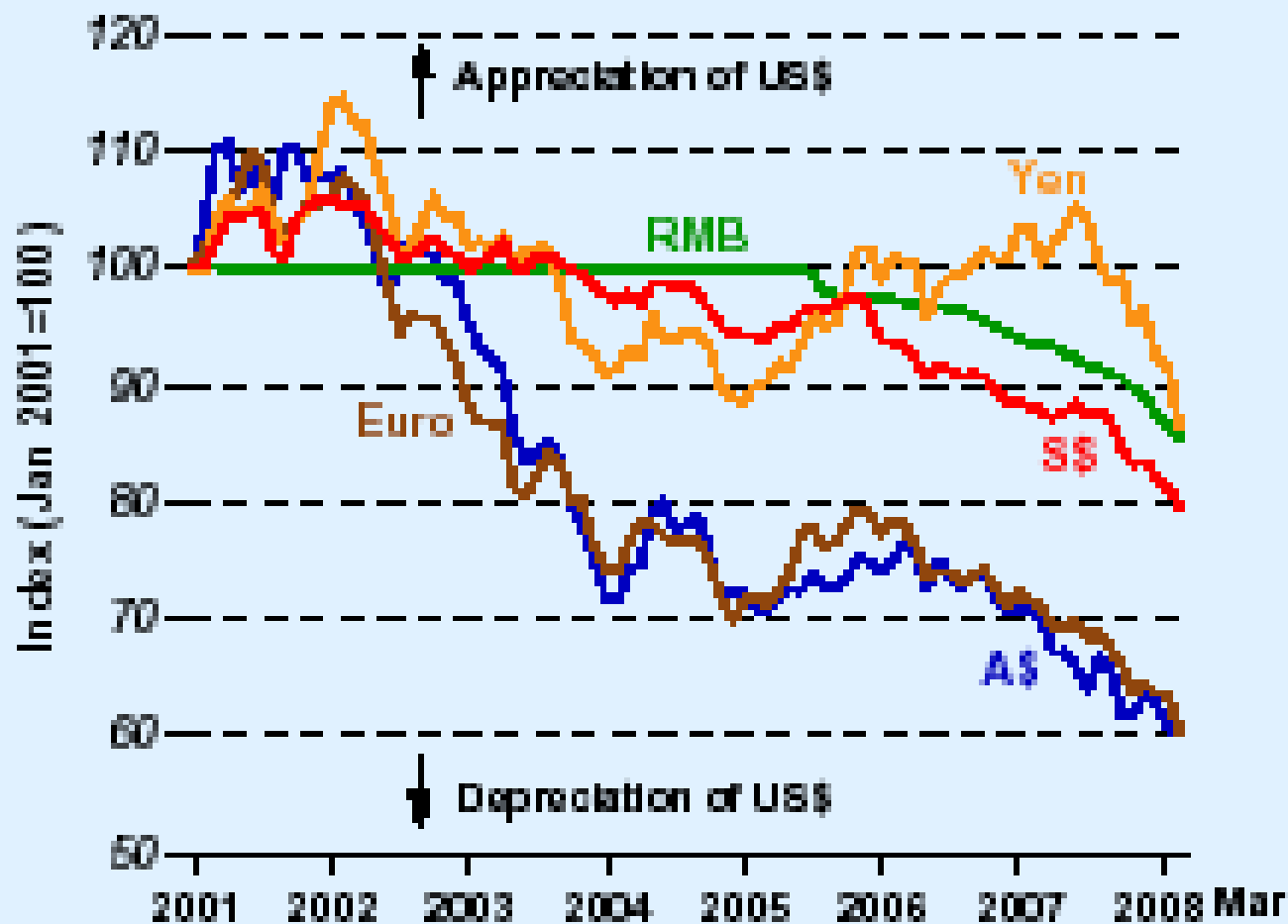
(Avinash Prasad of State Street Bank and Trust)

# Share of Currencies in Known Official Foreign Exchange Assets (During British Hegemony)

Currency	End of 1899	End of 1913
Sterling	64	48
Francs	16	31
Marks	15	15
Others	6	6

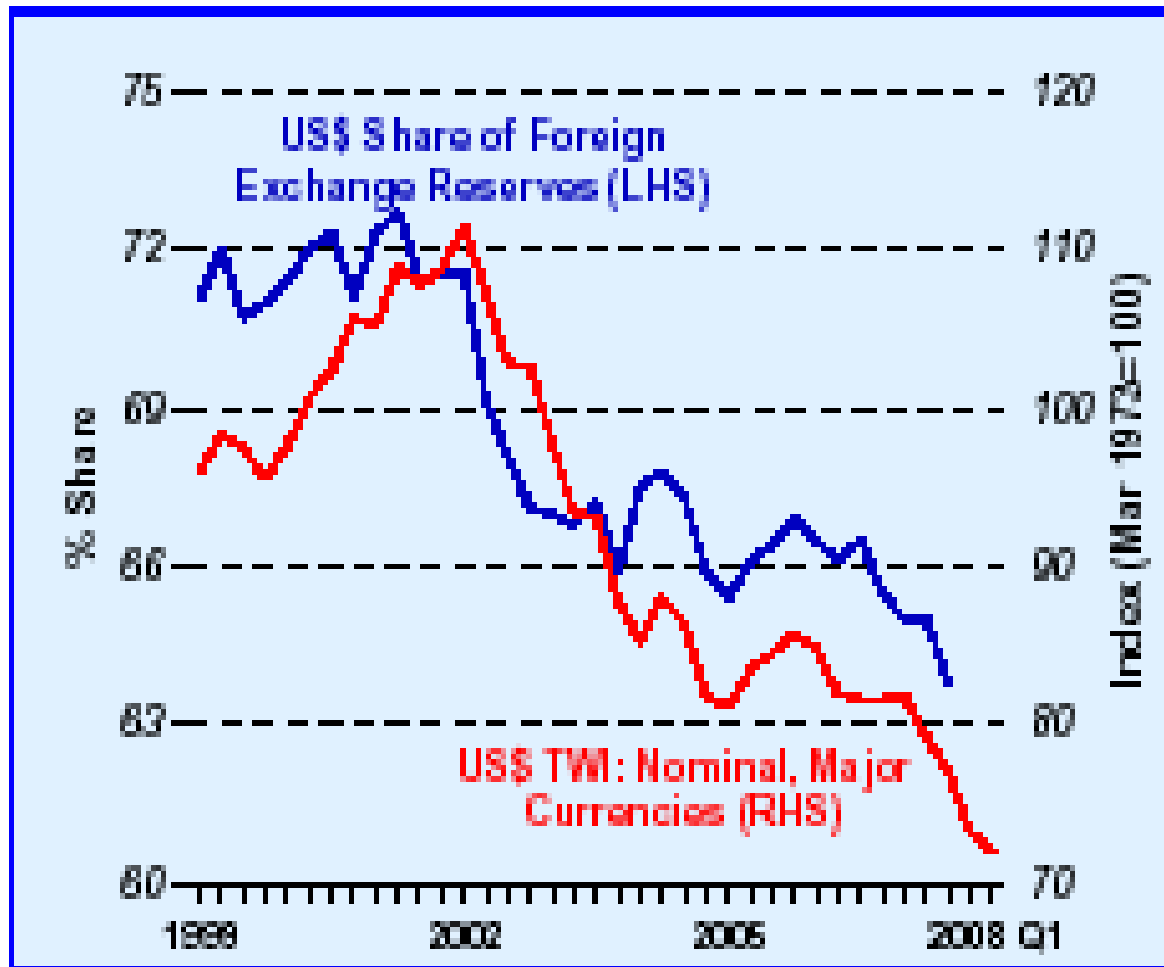
Percentage may not sum to 100 because of rounding errors  
Source: Lindert, Peter H (1969)

# Selected US\$ Exchange Rates



Source: CEIC

## US\$ Share of Official Foreign Exchange Reserves and the US\$ TWI



Source: IMF COFER database and CEIC

# REASONS FOR HOLDING FOREIGN CURRENCY

<b>Function</b>	<b>Government</b>	<b>Private actors</b>
<b>Store of Value</b>	International Reserves	Currency substitution
<b>Medium of Exchange</b>	Vehicle currency for exchange intervention	Invoicing trade & financial transactions
<b>Unit of Account</b>	Anchor for pegging local currencies	Denominating trade & Financial transactions

# FACTORS AFFECTING OPPORTUNITY COSTS OF HOLDING FOREIGN CURRENCY

- Political stability
- Large market economy, transparent rules, minimal government intervention
- Well developed financial system
- Store of value
- Network externalities

# Push Factors : Away from the Dollar

- Financial innovation that weaken network externalities
- Serious mismanagement of US economy that erodes the Dollar as store of value

# Pull Factors: Into the Euro

---

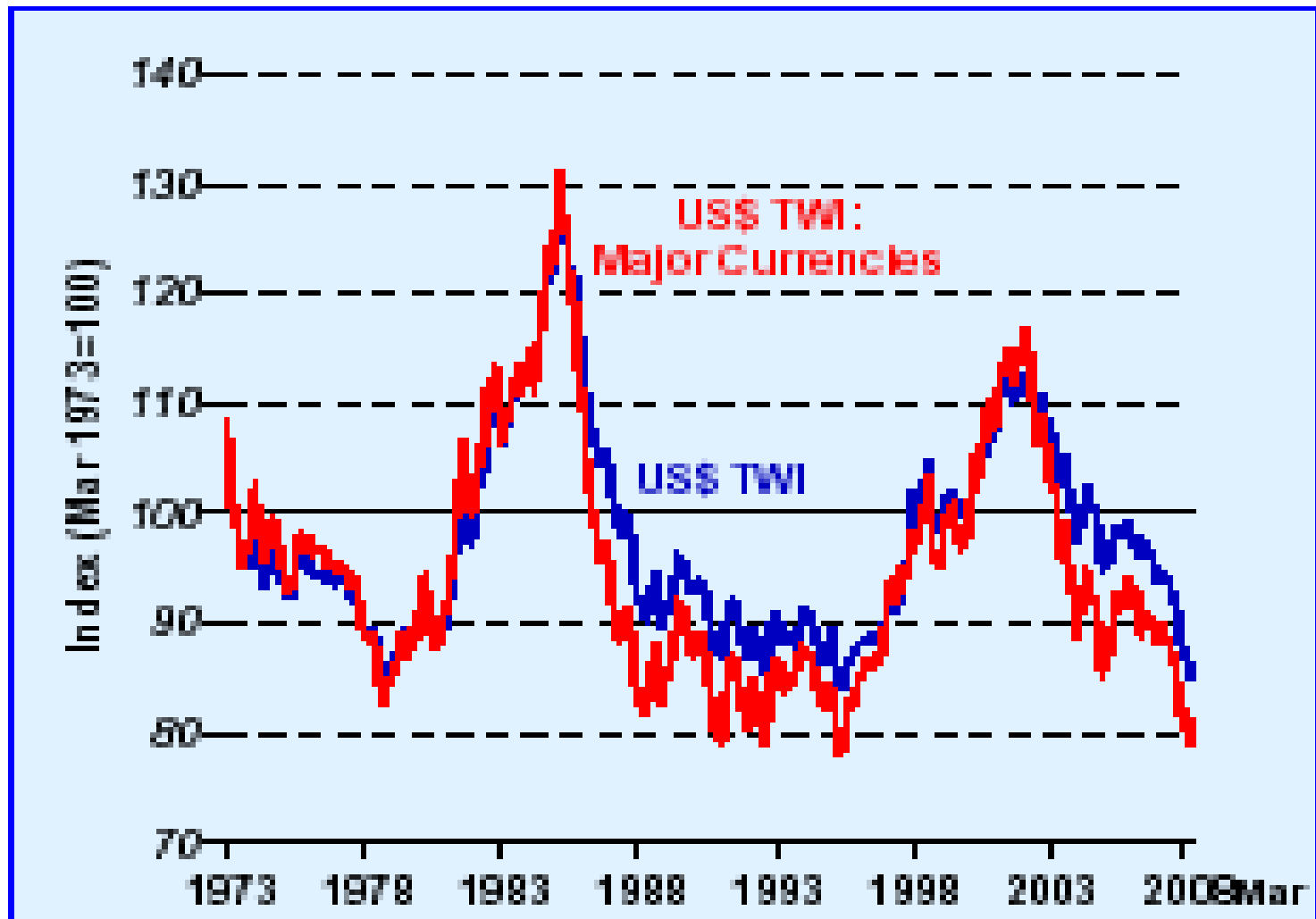
- Structural Reform in Euro financial markets
- Structural Reform in Euro real markets
- Expansion of Euro membership

# The Medium Term Future

---

- Will the Dollar be dislodged as the main transaction and reserve currency?
- Is it more efficient to have more than one major currency?

# Real US\$ Trade-weighted Index



Source: CEIC