# Concerns grow over US dollar’s dominance amid political and economic instability



The global financial landscape is inexorably tied to the US dollar, a currency that underpins international trade, investment, and reserves. Recent discussions among leading economists raise troubling questions about the dollar's viability, especially in the light of recent political instability and economic shifts in the United States. A downgrade by Moody's rating agency has intensified scrutiny, prompting analysts to ponder whether current leadership is jeopardising the dollar’s position as the world's reserve currency.

Prominent economists, including Paul Krugman and Martin Wolf, have expressed concern over whether political manoeuvres, particularly under Donald Trump, are systematically undermining this crucial financial asset. With the US representing approximately 26% of global GDP, the dollar maintains a commanding presence, accounting for 58% of global reserves—far outpacing the euro’s 20%. Moreover, it dominates trade finance and cross-border banking, solidifying its status as an economic linchpin. The implications of this dominance extend to a sense of global security; when investors seek safety during financial turbulence, they turn to the dollar, leading to significant US borrowing, currently at $36 trillion.

To uphold its status, a reserve currency must be closely tied to a stable and robust economy. While the dollar has largely fulfilled this function, past instances of extreme policy measures, such as those taken by former Federal Reserve Chairman Paul Volcker in the 1980s, have raised doubts. In today’s context, questions abound regarding Trump’s control over fiscal and monetary policies, particularly with proposals like the Big Beautiful Act that would expand federal debt by $3 trillion. Such actions could have profound consequences on the dollar’s perception as a stable reserve currency.

Indeed, the uncertainty surrounding US policy has given rise to speculation over potential alternatives. Christine Lagarde, the President of the European Central Bank, has hinted that the euro could ascend as a viable alternative to the dollar. However, this transition hinges on reinforcing the European Union’s economic infrastructure and geopolitical reliability. Despite these ambitions, the euro has struggled to capture the confidence necessary to rival the dollar effectively, primarily stalling at about 20% of global reserves. Lagarde outlined a multi-faceted approach, urging for stronger capital markets, legal frameworks, and military capabilities to bolster the euro’s global standing.

The recent downgrade of US debt has exacerbated this scenario, signalling a loss of confidence among global investors. Analysts at leading financial institutions argue that the time may be ripe for the EU to actively promote the euro in international trade agreements and expand its utility in financial instruments. Yet any movement towards a new reserve currency will encounter substantial political hurdles, particularly opposition from countries like Germany, where fiscal prudence remains a priority.

Amid discussions of a potential BRICS currency—a collaborative venture among major emerging economies such as Brazil, Russia, India, China, and South Africa—challenges loom large. Fundamental questions regarding governance, trustworthiness, and reliability arise: Who will manage this currency? What mechanisms will ensure its stability? The absence of a solid foundational structure and the lingering lack of trust in participant countries make the feasibility of such an initiative questionable.

Moreover, the Chinese renminbi, often touted as a potential rival to the dollar, demonstrates the complexities of transitioning leadership in the global currency arena. With significant capital controls and persistent global apprehensions regarding the integrity of its economic data, China finds itself ill-equipped to assume the role of a dependable reserve currency provider.

As the euro and potential new financial instruments compete for prominence, the dollar's perilous position brings an urgent need for stable governance in economic leadership. The ongoing uncertainties surrounding Trump's administration, marked by erratic policies and unpredictable fiscal decisions, keep global investors on edge. Consequently, trust—and the lack thereof—will dictate the future trajectory of reserve currencies.

In the immediate term, the reliance on the dollar seems unshakeable; countries may momentarily increase their reserves in other currencies, but these will remain insignificant compared to the dollar's dominance. The truth remains stark: the continued reliance on a single currency at the helm of global finance, particularly under an unpredictable administration, represents both a precarious and troubling status quo. If the US fails to stabilise its fiscal and monetary framework, it risks witnessing a global financial crisis of historic proportions driven by the very currency that has long served as a beacon of financial safety. The implications are profound, and the future of global finance hangs delicately on decisions made within the walls of the White House.

## Reference Map:

* Paragraph 1 – [[1]](https://www.taxresearch.org.uk/Blog/2025/05/26/could-the-usa-default-on-the-dollar/comment-page-1/), [[4]](https://www.ft.com/content/16e7e257-e0c4-4916-a2fb-4362f069f257)
* Paragraph 2 – [[2]](https://www.ft.com/content/f1c85b75-ddea-4cf2-aa42-1728499371e3), [[3]](https://www.reuters.com/world/europe/euro-could-become-dollars-alternative-lagarde-says-2025-05-26/), [[6]](https://www.ft.com/content/d9656820-0b3e-46e7-97c9-b6684d558776)
* Paragraph 3 – [[5]](https://www.reuters.com/world/china/global-markets-trading-day-graphic-pix-2025-05-22/), [[7]](https://www.reuters.com/markets/currencies/dollar-sliding-fast-pace-cant-last-mcgeever-2025-05-22/)

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## Bibliography

1. <https://www.taxresearch.org.uk/Blog/2025/05/26/could-the-usa-default-on-the-dollar/comment-page-1/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/f1c85b75-ddea-4cf2-aa42-1728499371e3> - This article discusses the necessity for the United States to modernise its financial infrastructure by aligning digital versions of the dollar with American democratic values. The bipartisan passage of the Genius Act in the U.S. Senate marks a significant step towards regulating stablecoins—digital tokens pegged to fiat currencies. As the U.S. dollar remains central to global trade and finance, it faces growing competition from outdated infrastructure and emerging digital currency networks like those developed by the BRICS nations. The article advocates for future-proofing the dollar through regulated and transparent digital instruments such as tokenised bank deposits, stablecoins, and Central Bank Digital Currencies (CBDCs), emphasising the importance of values like transparency, freedom from surveillance, and economic freedom. Drawing parallels to the initial development of the internet, the article underscores the necessity for public-private collaboration to set global standards that reflect democratic principles. Ultimately, successful integration of value-preserving technologies will ensure the dollar's dominance and integrity in the digital age.
3. <https://www.reuters.com/world/europe/euro-could-become-dollars-alternative-lagarde-says-2025-05-26/> - European Central Bank President Christine Lagarde stated that the euro has the potential to become a global alternative to the dollar, conditional on strengthening the European Union’s financial and security infrastructure. Despite global investors reducing dollar exposure due to inconsistent U.S. policies, they have turned to gold rather than the euro, which remains stagnant at about 20% of international reserves compared to the dollar’s 58%. Lagarde emphasised that the euro must earn global influence by building deeper capital markets, reinforcing legal and trade frameworks, and enhancing military capabilities to offer geopolitical reliability. She advocated for increased use of the euro in global trade invoicing, backed by new trade agreements and more integrated financial systems. A significant hurdle remains joint borrowing, which faces resistance notably from Germany over fiscal responsibility concerns. However, if successful, increased euro adoption could attract investment, lower borrowing costs, reduce exchange rate vulnerability, and shield the eurozone from sanctions.
4. <https://www.ft.com/content/16e7e257-e0c4-4916-a2fb-4362f069f257> - This article discusses the diminishing dominance of the US dollar as the global reserve currency in light of recent political and fiscal instability in the US, including a downgrade of US debt by Moody's. Unlike the 2011 and 2023 downgrades, the latest one has triggered notable concern, as Treasury yields rise and confidence in the dollar’s safe-haven status declines. This context offers a unique opportunity for the euro to gain a larger role in global trade and finance. Academics Jens van 't Klooster and Steffen Murau suggest that the EU should proactively promote euro usage in trade agreements and financial instruments to strengthen its presence in global markets. They advocate for broader use of euro invoicing, expanding euro swap lines, and increasing the availability of safe, tradeable euro assets through collective EU borrowing. However, the path involves significant political and structural challenges, including resistance from stronger EU economies like Germany to mutual debt agreements. The piece argues for stronger political will in Europe to seize this opportunity and enhance the global status of the euro amidst waning trust in the dollar.
5. <https://www.reuters.com/world/china/global-markets-trading-day-graphic-pix-2025-05-22/> - Markets experienced a cautious reprieve on Thursday, with slight rebounds in stocks, the U.S. dollar, and bond prices following recent selloffs tied to growing anxieties around long-dated government debt, especially in Japan. While temporary calm was supported by improved purchasing manager indices in the UK and Japan and an uptick in U.S. business activity, inflation concerns persist. Japanese inflation is accelerating, pushing yields higher and challenging the Bank of Japan, which is grappling with low bond demand. In contrast, Eurozone inflation appears to be easing, with European Central Bank policymakers predicting disinflation. In the U.S., fiscal instability looms as President Trump's tax bill, projected to increase federal debt by $3.8 trillion, progresses. Despite a smoother 10-year Treasury auction, apprehension remains. Meanwhile, the dollar is under pressure, having lost 5% since April due to trade uncertainties and policy unpredictability. Speculators have built sizable short positions against the dollar, and sentiment has reached extreme bearishness. Nevertheless, the recent downturn may be overextended, suggesting a possible short-term stabilisation. Eyes now turn to upcoming inflation data and central bank developments, which could influence the next market moves.
6. <https://www.ft.com/content/d9656820-0b3e-46e7-97c9-b6684d558776> - This article examines the potential decline of the U.S. dollar’s dominance in global finance, particularly under the leadership of Donald Trump. Despite Trump's own warnings about the catastrophic consequences of losing the dollar's global status, his erratic foreign policy and economic decisions—especially trade conflicts with allies—are undermining trust in the U.S. and its currency. While the dollar remains dominant—comprising 58% of global reserves and leading in trade finance and cross-border banking—it has declined since 1999. Factors such as U.S. monetary instability, use of financial sanctions, and political unpredictability challenge its future hegemony. Alternatives like China's renminbi and the euro fall short due to issues such as China's capital controls and the Eurozone’s political fragmentation. Martin Wolf concludes that, despite these flaws, no viable alternative yet exists, and the dollar may continue leading by default. He warns, however, that if U.S. leadership continues to deteriorate, global financial stability could echo the volatile interwar period. In effect, the world may remain reliant on a flawed hegemon, highlighting the urgent need for more stable and principled economic leadership.
7. <https://www.reuters.com/markets/currencies/dollar-sliding-fast-pace-cant-last-mcgeever-2025-05-22/> - The U.S. dollar has significantly weakened, dropping 5% since April 2 and 10% since mid-January, primarily due to uncertainty surrounding President Trump's trade policies, increasing U.S. debt, and attacks on Federal Reserve leadership. Despite existing long-term economic factors that support a bearish outlook on the dollar, many analysts believe that the current negative sentiment and investor positioning may be overblown. Hedge funds now hold $17 billion in short positions on the dollar, a sharp reversal from January’s $35 billion long positions. Bearish sentiment is at its highest in nearly two decades, raising concerns that the dollar may be oversold in the short term. Additionally, despite expectations for fewer interest rate cuts by the Federal Reserve, the dollar continues to fall—possibly breaking its historic correlation with yield spreads. Global fund managers are increasingly underweight on the dollar, and fears about a potential buyers' strike on U.S. assets persist. However, the pace of the decline may slow, as upcoming developments like the U.S.-China tariff discussions and domestic fiscal policy decisions could influence sentiment. Key meetings among G7 finance leaders may also impact the dollar's trajectory. In the short term, a correction or pause in the dollar's decline is possible.