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Despite a decline, it retains primary status globally as other countries don't meet conditions easily

Why the 'Greenback Reset' is More Evolution Than Revolution

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In the recent past, concerns have been raised about the role of the US dollar as a reserve asset, with some terming it as a "reset" of the dollar. However, a closer look at the data suggests that the dollar's current trend is just a continuation of what started after the North Atlantic Financial Crisis (NAFC) in 2008 and even prior to that. Overall, the dollar maintains its predominant position as a reserve currency as there are no easy alternatives.

Foreign countries typically hold US dollars by investing in US debt, but this practice has seen a notable shift in the recent period. China has persistently reduced its holdings, from a peak of \$1.32 trillion in 2011 to \$684 billion by December 2025—its lowest since 2008. Japan, now the top overseas holder, also saw its holdings drop from \$1.33 trillion in November 2021 to \$1.2 trillion by December 2025.

Trade headwinds

Similarly, India and Brazil significantly reduced their US debt holdings, with India reducing from \$220 billion in June 2021 to \$183 billion by December 2025, and Brazil from \$250 billion to \$169 billion during the same period. Overall, foreign holdings of US debt declined from a peak of 47% in 2007 to 29.5% by December 2025, driven by both a surge in total US debt and reduced holdings by these key nations.

A critical question is whether the decrease in US debt holdings has been at the expense of increased allocation to other forex assets. Indeed, the data shows a notable decline in the dollar's share of global foreign currency assets: from a peak of 70.8% in 2001, it fell to 62.9% in 2008 and further to 56.9% by September 2025. Over this period, holdings in the euro, Japanese yen, and British pound saw increases (euro: from 18.4% to 20.3%; yen: 5.4% to 5.8%; pound: 3.1% to 4.5%).

Some new, non-traditional currencies are also gaining ground. For example, by September 2025, the Canadian dollar constituted 2.7%

of global foreign currency assets, the Australian dollar 2.1% and the Chinese renminbi 1.9% – all from almost nothing just a few years ago.

While central banks have always held significant gold, they have been net buyers every single year since 2008. China's gold holdings, for instance, surged from 600 tonnes in December 2008 to 2,306 tonnes in 2025, and that of India from 358 tonnes to 880 tonnes. Over the same period, several other economies have also significantly increased their gold holdings. In all, 40 countries increased their gold holdings by 6,699 tonnes between 2008 and September 2025.

Though the gold demand by central banks increased post the Russia-Ukraine conflict, the historical context indicates that the central bank gold demand has been rising since 2008. However, it is crucial to note that among the economies that increased their gold holdings, only China and Brazil had simultaneously reduced their US debt holdings between 2008 and 2025. Therefore, the overall increase in gold holdings between 2008 and 2025 is not necessarily linked to a decline in dollar holdings, with China and Brazil being the only exceptions. In the case of India, the increase in gold holdings and the decline in US debt holdings have been observed only from June 2021.

The analysis reveals two key points. First, the gradual decline in foreign holdings of US debt and diversification of forex reserves (into other currencies and gold) is a long-standing trend, which began after the NAFC and accelerated slightly after the Russia-Ukraine conflict. The US dollar's share in reserves has fallen almost every year since 2001, except 2005, 2011 and 2016. Second, despite this trend, there's little evidence of a widespread move away from the US dollar by most countries, barring China, Brazil, and, to some extent, India. Therefore, the recent decline in the dollar's share of central bank reserves need hardly be overemphasised.

Despite recent concerns raised by declining US fiscal health (debt-GDP rising to 133% in 2020 before moderating to 122% in 2025), the US maintains its predominant reserve currency position, supported by the country's large open economy, and deep and liquid financial markets. For a country's currency to serve as a major global reserve (like the dollar does), it must meet global demand for liquidity. This means the issuing country needs not only a large economy but must also tolerate both a fiscal deficit and a current account deficit (the Triffin dilemma), a role the US fulfils well.

Two other major economies which could rival the US dollar as reserve asset are the Eurozone and China. However, both these economies face several constraints. The Eurozone lacks a centralised fiscal authority as euro-denominated debt is still backed by its national issuers, leading to fragmented sovereign debt markets with varying credit risks. Euro-

denominated debt markets are also less liquid compared with the US treasury market.

Though the Chinese economy has become large, the country's strict capital controls limit foreign access to its financial markets, which are also not well developed. China lacks a fully convertible capital account and flexible exchange rate. Concerns also persist with China's financial transparency and governance standards. It is, therefore, not surprising that the renminbi constitutes less than 1.9 per cent of reserve assets even as China actively promotes its international use.

In sum, despite a decline in its relative significance, the dollar retains its status as the world's primary reserve asset. This is mainly because most of the conditions required for a currency to become a reserve asset—a large and stable economy, deep and liquid treasury markets, and persistent twin deficits—are not met easily by any other country. Though the trend of a decline in its relative significance is likely to persist, this process will be extremely slow, as no easy alternatives exist. Hence, the dollar is expected to remain a dominant reserve currency for the foreseeable future.
