Reserve Currencies and Stablecoins

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Introduction

Thank you to the Karl Brunner Institute of Macroeconomic Policy for the kind invitation to speak at the SNB and Its Watchers conference this year. I look forward to a great discussion with Hans, Thomas, and Carolyn. And thank you to Gianluca for moderating.

The role of safe haven currencies in our world economy is always an important topic of discussion. I previously spoke on this in March at the University of Chicago Booth School of Business's US Monetary Policy Forum.[1] Today's panel—with its focus on stablecoins—provides an intriguing angle through which to discuss evolving dynamics of safe-haven currencies.

First, I'll note that the views I express today are mine and not those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.

Why the Dollar Stands Apart

The dollar's position as the world's reserve currency depends first and foremost on the United States' strong rule of law. Our legal institutions provide a reliable framework for enforcing contracts and protecting property rights. This stability fosters confidence among investors and nations alike.

Being the leading currency brings big advantages. First, the dollar is widely used, a fact which lowers transaction costs and makes international commerce less costly for Americans and for others around the globe. Second, foreign investors' preference for dollar-denominated assets means that borrowing costs are lower for US households, businesses, and the government. Investment levels are also higher than domestic savings alone would allow.

To understand why the dollar has this special status, it helps to review what a currency actually does: it serves as a medium of exchange, a unit of account, and a store of value.

As a medium of exchange, the dollar is clearly the dominant currency.[2] More than half the world's trade is denominated in dollars, though the US accounts for only 13 percent of global trade. Internationally, large shares of loans and debt are all denominated in dollars, giving it an outsized role as a medium of exchange.[3]

The dollar also plays a central role in foreign-exchange transactions across the globe. Nearly 90 percent

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[1] Remarks adapted from Beth M Hammack. 2026. "Remarks for the Panel: On the Safe-Haven Status of the Dollar." Speech, 2026 US Monetary Policy Forum, Kent A. Clark Center for Global Markets, University of Chicago Booth School of Business, New York, New York, March 6. doi.org/10.26509/sp-20260306

[2] See "Countries & Regions," United States Trade Representative. ustr.gov/countries-regions

[3] See Carol Bertaut, Bastian von Beschwitz, and Stephanie Curcuru. 2025. "The International Role of the US Dollar–2025 Edition," *FEDS Notes*, July. Board of Governors of the Federal Reserve System. doi.org/10.17016/2380-7172.3856

of the $9.6 trillion in daily FX transactions involve US dollars.[4] The euro, the next strongest contender, is a distant second, at 30 percent.

As a unit of account, the dollar lets individuals and businesses easily compare prices of goods and services around the world. Gold and oil, for example, are priced mainly in dollars. The dollar even serves as the unit of account in some foreign economies. A number of other countries are anchored less formally, through dollar pegs or managed floats against baskets that include the dollar.

Finally, the dollar is a reliable store of value for multiple reasons. First, our capital account is open, so investors can move money in and out of the US freely. Second, the depth and liquidity of our capital markets allow buyers and sellers to transact quickly and at low cost. Third, we have a well-regulated financial system in which investors have confidence that their holdings are secure.

Governments and their central banks continue to hold most of their official reserves in liquid dollar assets, notably Treasuries. They use those reserves to manage exchange rates, service debt, and pay for imports, among other things. By the early 2000s, following the East Asian and Russian financial crises, dollar holdings accounted for nearly 72 percent of global foreign-exchange reserves. The dollar's share has fallen since then, to about 57 percent as of mid-2026.[5] But the dollar remains the world's reserve currency by a wide margin.

What It Takes to Be Reserve Currency

It's possible that the dollar's share of global reserves has peaked, but it's difficult to envision imminent major changes to its international role. One reason is that the more people use a currency, the stronger the network effects and bigger the benefits. Everyone gains from using the same standard. The dollar is used in most foreign-exchange transactions, even when Americans aren't involved. The standard can change, but it doesn't change quickly.

From the mid-19th century until World War I, the British pound was the leading currency for trade, capital investment, and reserves around the world. The pound and the dollar traded the top spot between the world wars, after which the dollar became the leading international currency.

Other currencies have played roles, as well. The Japanese yen, while far from internationally dominant, has traditionally been considered a safe-haven currency, owing to Japan's large international creditor position and its long period of low interest rates.

The Swiss franc is also worth discussing given its history and our setting today. It was the sixth-most-traded currency based on foreign exchange transactions in 2025, and it has long been considered a safe-

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[4] See "Triennial Central Bank Survey of Foreign Exchange and Over-the-Counter Derivatives." 2025. Bank for International Settlements, table 4, 14. bis.org/statistics/rpfx25.htm. Because each foreign-exchange transaction involves two currencies, the shares add up to 200 percent.

[5] See IMF, Currency Composition of Official Foreign Exchange Reserves (COFER), second quarter of 2026. data.imf.org.

haven currency. By most measures, the Swiss franc is a model of what investors want in a crisis. Switzerland has strong institutions, a long tradition of political neutrality, low inflation, and a credible central bank. When markets get nervous, money flows in.

And yet, central banks hold only a sliver of their reserves in francs—about one fourth of one percent.[6] So why the gap?

Part of the answer is scale. Switzerland's economy and its government bond market are small. There aren't enough safe Swiss franc assets for the world to hold in size. Large safe-haven inflows can easily push up the Swiss franc and squeeze Swiss exporters. So the Swiss National Bank has kept its policy rate at zero and has made clear it's ready to intervene in currency markets to lean against those inflows.[7]

In other words, a reserve currency has to be more than trusted. It has to be *available*, in deep and liquid markets, so that investors can choose to move in and out of the currency as they see fit.

The United States is unusual in offering all of these at once. This combination is hard to replicate, but it isn't permanent. The same qualities that draw investors to Switzerland in a storm—the rule of law, price stability, and an independent central bank—are also critical to the dollar's status as a reserve currency.

Central Banks' Role

So how does the Fed fit into all of this? You don't often hear Fed policymakers talk about the dollar. That's because the Treasury Department is responsible for formulating international economic policies and managing the value of the dollar.

The Federal Reserve's congressionally assigned dual mandate is to conduct monetary policy in pursuit of maximum employment and price stability. That said, the value of the dollar is one of many factors affecting prices and, overall, the economy, so it's something I watch. The Federal Reserve also has responsibility for monitoring and promoting financial stability, and the dollar is an important piece in the interconnected global financial system.

Delivering on our commitments is an important way the Federal Reserve helps the dollar remain a reliable store of value and that Americans can continue to reap the benefits of its global status. This includes bringing inflation back to our 2 percent goal, sustaining a healthy labor market, and supporting a resilient financial system. High inflation erodes the purchasing power of dollar cash holdings and nominal bonds.

Since I spoke about this topic in early March, inflation has moved in the wrong direction. Headline PCE inflation was 3.6 percent in September, and core PCE inflation was 3.1 percent. Those readings are well above our 2 percent goal and higher than at the start of this year. Inflation has now been above our goal

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[6] The Swiss franc represented approximately 0.27 percent of global official foreign-exchange reserves as of 2026:Q2. data.imf.org/en/Data-Explorer?datasetUrn=IMF.STA:COFER(7.0.1).

[7] "We are also willing to intervene in the foreign exchange market as necessary." Swiss National Bank. 2026. Press release (September 24). snb.ch/en/publications/communication/press-releases-restricted/pre_20260924.

for nearly six years, and the pressures I'm seeing appear to be relatively broad based, reflecting both supply and demand.

I expect that monetary policy will need to move to a restrictive stance to bring inflation back to 2 percent in a timely manner. I prefer getting to that stance through more frequent smaller adjustments when possible, something which would be less disruptive to households, businesses, and financial markets. This strategy would also reduce the risk of having policy fall behind where it needs to be and an inflationary mindset take hold.

The Fed's independence, along with its accountability to Congress, is critical to maintaining the world's confidence in our commitment to 2 percent inflation. Through its actions, the Fed has earned credibility as an institution that conducts monetary policy based on evidence and economic data rather than on short-term political pressures. That credibility helps us achieve our objectives, including low and stable inflation, while supporting the status of the dollar.

Impact of Stablecoins

Losing any one of these benefits could diminish the dollar's status as a reserve currency. But moving away from the dollar would likely require an attractive alternative.

Some suggest that digital currencies, including cryptocurrencies, provide an attractive alternative to holding dollars. While they do offer some novel payment methods, I have yet to see compelling evidence of broad use cases for them as a medium of exchange. The price volatility of cryptocurrencies makes them a less certain store of value than the dollar. Until these issues are resolved, I remain skeptical that they pose a threat to the dollar's status.

Stablecoins may tell a different story, and it's one I'm watching closely. Thus far, nearly all of the stablecoins outstanding are pegged to the dollar.[8] European officials have noted, with some concern, that stablecoins are extending the dollar's reach into new corners of the global financial system. Because stablecoins' price stability is best achieved by backing them with safe and liquid assets, new money flowing into stablecoins may translate into demand for Treasury bills. Studies tend to agree that US dollar stablecoin inflows have the potential to lower Treasury bill yields, particularly if their size and scale grow significantly.[9]

While stablecoins have been around since 2014, with new US federal rules taking effect in January, they're entering a different phase.[10] There is an open question about the extent to which stablecoin regulation at the national level, such as the Guiding and Establishing National Innovation for US

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[8] elibrary.imf.org/view/journals/087/2025/009/article-A001-en.xml.

[9] Rashad Ahmed and Iñaki Aldasoro. 2025. "Stablecoins and Safe Asset Prices." Bank for International Settlements, Monetary and Economic Department, Working Paper No. 1270. bis.org/publications/working-paper-1270-stablecoins-and-safe-asset-prices.

[10] Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act, Pub. L. 119-27 (2025); see also US Treasury notice of proposed rulemaking, August 2026.

Stablecoins or GENIUS Act, will affect global demand for US dollars. As this group likely knows, the GENIUS Act was signed into US law in July 2025, establishing a comprehensive national regulatory framework for payment stablecoins and guaranteeing that payment stablecoins can be easily redeemed for dollars.

A major reason for non-US-resident investors to hold stablecoins is that they cannot hold US dollars directly.[11] However, it is unclear whether such investors can benefit from the redemption clauses of the GENIUS Act, since they may be unable to deposit the redemption proceeds into a US dollar bank account. In contrast, most US residents can directly hold safe US assets such as insured US dollar deposits or Treasury bills—and earn a yield in the process—and so payment stablecoins may be less appealing domestically.[12]

Given these differences, we might expect to see GENIUS Act-compliant payment stablecoins used primarily in the US, and noncompliant stablecoins used overseas. Thus, it is unclear whether the GENIUS Act will catalyze an overall increase in global dollar demand.

Of course, stablecoins may have technological advantages over traditional payment methods, such as the ability to execute smart contracts or to enable agentic workflows. These features may raise demand for stablecoins and thus for US dollar assets. However, current US regulation does not directly address use of smart contracts or agentic AI for payments. Without regulatory clarity, US institutions may be slow to adopt these technologies.

Conclusion

As I noted earlier, the depth of investable assets in US markets is unparalleled. America's legal system endures as one in which investors can be confident that contracts will be enforced and laws upheld. And with support from an independent Federal Reserve, the nation's economy and its financial institutions are strong and stable.

The dollar's status depends on preserving the fundamental qualities that underlie its strength, qualities that provide a solid foundation for any currency. This includes maintaining central bank independence so we can deliver on our mission. As a Federal Reserve policymaker, I'm committed to achieving our price stability and maximum employment objectives on behalf of the American public.

Thank you, and I look forward to the discussion.

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[11] See, for example, Anantha Divakaruni and Peter Zimmerman. 2025. "Tariffs, Stablecoins and the Demand for Dollars." Federal Reserve Bank of Cleveland, Working Paper No. 25-21. doi.org/10.26509/frbc-wp-202521. The authors show that international investors used stablecoins as a proxy for dollars to hedge against the effect of the April 2025 US tariff announcement, but only in those countries subject to capital controls.

[12] See Brooke Dirtzu, Geena Panzitta, and Peter Zimmerman. 2026. "Will US Firms Adopt Stablecoins? Survey Says They're Not Enthusiastic." Federal Reserve Bank of Cleveland, *Economic Commentary* 2026-22. doi.org/10.26509/frbc-ec-202622. The authors find little evidence that US firms are interested in using stablecoins.