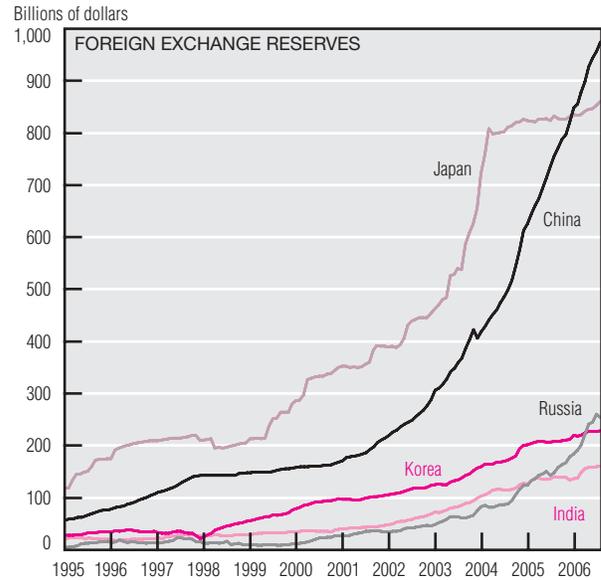
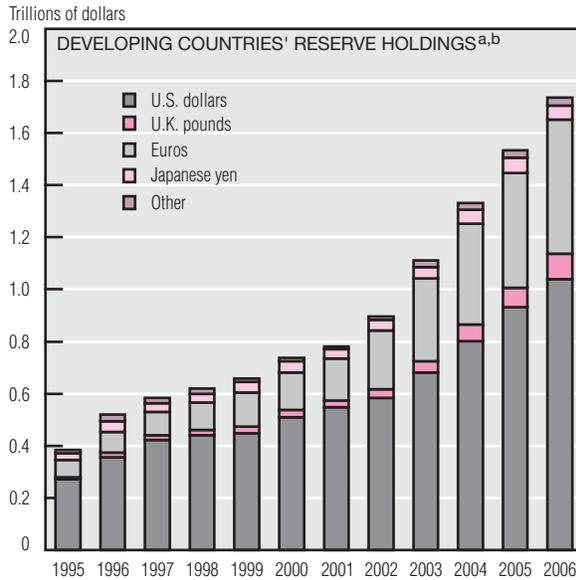
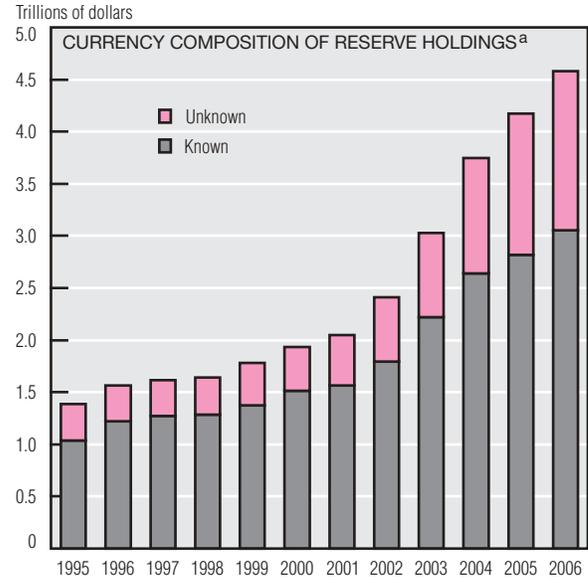


The Currency Composition of International Reserves



a. Preliminary estimate, 2006:IIQ.

b. Includes only those holdings whose currency composition is known.

SOURCE: International Monetary Fund.

The U.S. dollar is the world's key international reserve currency. Many countries—particularly developing and oil-exporting nations—have amassed huge foreign-exchange portfolios. Some, notably China and Japan, have done so through efforts to prevent their currencies from appreciating against the dollar. Others, adversely affected by global currency crises in 1997–98, have built buffers against banking turmoil and rapid financial outflows. Reflecting the comparative advantage of the U.S. in providing broad, liquid,

transparent financial markets, the lion's share of these reserves is in dollar-denominated assets.

However, some commentators fear that the era of the dollar may be coming to a close. Current global imbalances, they contend, suggest that the dollar must depreciate quite substantially, and the prospect of capital losses creates a strong incentive to diversify out of dollars.

No country publicizes the currency compositions of its own reserves, but many allow the International Monetary Fund (IMF) to aggregate the data.

The IMF knows or can allocate the currency composition of only two-thirds of total foreign currency reserves, and that proportion has been shrinking.

All of the action is in developing countries, which began trimming their dollar shares in 1997 and accelerated the pace after 2001. In that year, U.S. dollars made up 70% of the reserves whose currency composition is known; by 2002:IIQ, their share was down to 60%. Developing countries seem to be shifting into euros (up 9 percentage points to 30% of the total) and British pounds (up 2 percentage points to 5%).