CAPITAL MARKETS

The Dollar's Exorbitant Privilege

CFA Institute Global Survey on the US Debt and the Role of the US Dollar

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October 2024

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EXECUTIVE SUMMARY

This report examines market practitioners' opinions on the sustainability of US public finances, given the country's high level of debt/GDP ratio and budget deficits. By questioning the CFA Institute membership on a global basis, our research evaluates possible implications of high debt levels for the role of the US dollar as the world's prominent reserve currency.

The report is based on a survey that was conducted from 15 to 31 July 2024.

Key Findings

- A supermajority of respondents (77%) believe US government finances are not sustainable, while 59% believe investors in US Treasuries remain confident in the United States' ability to freely borrow to fund government operations and interest obligations. This is the main dichotomy revealed in our report.
- Interestingly, respondents from developed markets are even more pessimistic on the sustainability of US finances (79% do not believe they are sustainable) than those from emerging markets (65%).
- Regarding reserve currency status, 63% of respondents believe the US dollar will lose that prominent status over the next 5–15 years, either in a marginal way (51%) or in a material way (12%). For respondents in the BRICS countries,[1] this combined statistic reaches 72% (84% in India alone).
- Respondents indicated that the US dollar is most likely to be displaced as the world's prominent reserve currency by a multipolar currency system (38%), followed by a digital currency (12%) or a hard currency, such as gold (12%). The Chinese renminbi was selected by only 6% of respondents.
- Importantly, a sizable majority of respondents (61%) believe the United States will not be able to reduce its debt/GDP ratio to a more moderate level or otherwise contain deficit spending.
- In terms of measures to reduce the current, record-level debt/GDP ratio, 69% of respondents believe the US government should cut nonmandatory spending (discretionary programs, such as defense), followed by cuts in mandatory spending (52%), such as social insurance and health care costs.

[1]BRICS refers to Brazil, Russia, India, China, and South Africa. We also include two recent additions to the group: Egypt and the United Arab Emirates.

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FOREWORD

As a former federal official, I have seen more than my fair share of financial crises. I was the Assistant Secretary of the US Treasury during the 9/11 terrorist attacks on our financial centers and Chair of the Federal Deposit Insurance Corporation during the Great Financial Crisis of 2008. In responding to these crises, as well as the more recent pandemic, the government appropriately resorted to increased deficit financing to protect the citizenry from economic and financial devastation. Unfortunately, once the crises passed, we just kept spending. Our national debt now exceeds USD35 trillion, representing a staggering 123% of GDP.

Today's national debt exceeds even the lofty levels we attained at the end of World War II, when it stood at 119% of GDP. After the war, our "greatest generation" of political leadership steadily restored our nation's finances to sustainable levels, bringing it down to about 31% of GDP in 1981. Unfortunately, in the 21st century, the political leadership has concluded that deficits don't matter. Both Republicans and Democrats have settled on deficits as the easiest way to pay for politically popular initiatives, be they lower taxes (Republicans) or higher spending (Democrats). They have become wary of braving the political pain of deficit reduction, knowing their successors could easily squander those hard fought battles with more deficit financed spending and tax cuts.

Our profligacy has been enabled by the dollar's privileged status as the world's reserve currency. As the late US Senator Alan Simpson (R-WY) once famously said, investors continue buying our debt because we are "the best looking horse in the glue factory." But as we continue to climb in the rankings of the world's most indebted nations, that perception could easily change. The shift in sentiment could be sudden or gradual, but the consequences would be painful. The federal government's interest costs, already projected at USD892 billion for 2024, would increase dramatically, forcing painful tax hikes or spending cuts. Private sector borrowing costs tied to Treasury rates would also spike. Financial institutions, managed funds, and other major investors in federal debt would be exposed to trillions of dollars in market losses as Treasuries lost value, threatening widespread distress in our financial system.

When will we reach this inflection point? No one knows. Could another recession be the catalyst? In 2007, the federal debt to GDP ratio stood at 62.6%, providing fiscal flexibility to fund relief programs during the Great Recession. It's now at 123%. How much higher will it need to go to provide relief for the next recession? Will investors still be around to buy our debt? And at what rate?

The seasoned financial experts surveyed in this CFA Institute report are remarkably—but justifiably—pessimistic about the sustainability of our government finances and the ability of our government leaders to reduce the debt/GDP ratio to a more moderate level. A significant majority, 63%, believe we will begin to lose our reserve currency status within the next 5–15 years.

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In 2013, the CFA Institute Systemic Risk Council was dedicated to monitoring and advocating for regulatory reform of US capital markets that reduced systemic risk. The national debt is now, itself, a potential source of systemic crisis. Washington's policymakers should take heed.

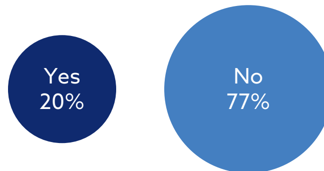
Sheila Bair

Former Chair of the Federal Deposit Insurance Corporation
and Founding Chair of the CFA Institute Systemic Risk Council

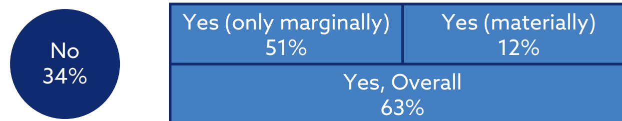
1. SPOTLIGHT: A DIFFICULT DICHOTOMY TO RESOLVE

When respondents were asked:

Do you think US government finances are sustainable, despite running crisis-level debt to GDP ratios and budget deficits?

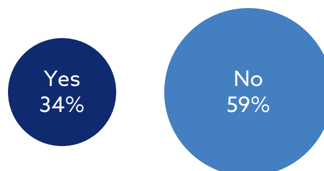


Will the US dollar lose reserve currency status over the next 5–15 years?



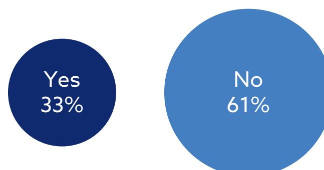
Yet, when asked:

Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund government and interest obligations?



And when asked:

Over the next 5–15 years, do you think the US will be able to reduce its debt/GDP ratio to a more moderate level?



Reserve currency status is clearly the unique structural advantage the United States continues to benefit from on the international stage—thanks maybe to its own "TINA" effect?[2]

[2]TINA is an acronym for "there is no alternative." See J. Chen, "TINA: An Acronym for 'There Is No Alternative' Defined," Investopedia (10 September 2022). www.investopedia.com/terms/t/tina-there-no-alternative.asp.

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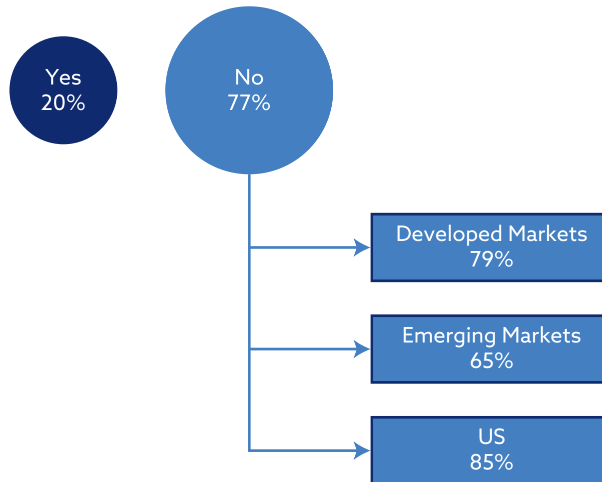
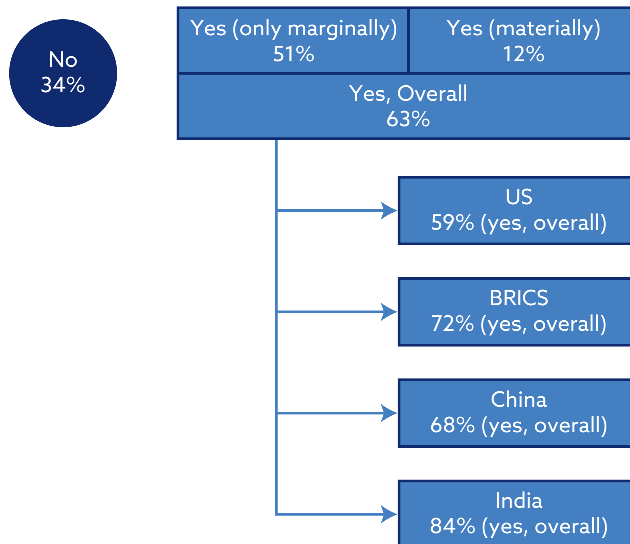
2. SPOTLIGHT: A REGIONAL DIVIDE THAT BECOMES APPARENT

Do you think US government finances are sustainable, despite running crisis-level debt to GDP ratios and budget deficits?



Will the US dollar lose reserve currency status over the next 5–15 years?



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3. INTRODUCTION

With one debt ceiling broken after another, we are all wondering whether there is an actual or virtual limit to the amount of debt the US government can accumulate before it affects the credibility of the US dollar or the stability of financial markets.

In parallel, the US federal government has been running budget deficits uninterruptedly over the last 20 years, essentially since the 2001–02 dot-com crisis. Notwithstanding the occasional episodes of economic crisis the country and the world have endured over the period, the level of the US deficit has also gradually grown over the years—such that the country's ratio of debt to GDP also has gotten worse over time, reaching in 2024 levels not seen since World War II.

A natural corollary to these developments has been a steadily inflating and accelerating level of money supply, concurrently with a Federal Reserve balance sheet reaching record highs in 2022, in the wake of the COVID-19 crisis.

Yet by many accounts, the US dollar has maintained its prominence in global markets as a medium of exchange for international transactions, a reserve currency in central bank coffers, or the source material needed to purchase US Treasury bonds (store of value), which have retained their appeal as a safe haven asset, perhaps against logic.

In February 1965, before the Bretton Woods system came to an end, then French president Charles de Gaulle referred to the "exorbitant privilege of the US dollar"[3] (a phrase made famous subsequently by his finance minister, Valéry Giscard d'Estaing) while addressing journalists. His words are useful in our attempt to illuminate the dichotomy we are discussing here:

> The fact that many states accept dollars as equivalent to gold in order to make up for the deficits of the American balance of payments has enabled the United States to be indebted to foreign countries free of charge. Indeed, what they owe those countries, they pay in dollars that they themselves can issue as they wish. This unilateral facility attributed to America has helped spread the idea that the dollar is an impartial, international means of exchange, whereas it is a means of credit appropriated to one state.[4]

Even after the collapse of the Bretton Woods system in 1973, however, it seems the US dollar has continued to enjoy this privilege.

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[3]See Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press, 2011).

[4]Eichengreen, *Exorbitant Privilege*.

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The question remains: Can we expect a continuation of lax fiscal, as well as monetary, policy to eventually result in a diminution in the level of confidence global investors and savers grant to the US dollar? Should such an event take place, abruptly or gradually, what would the impact be on the stability of global financial markets?

The concept of de-dollarization is not new. CFA Institute gradually became more interested in evaluating the merits of this concept as the world was collectively witnessing the end of cheap money in the aftermath of the COVID-19 crisis. Inflation started rising again on the back of expansionary fiscal and monetary policies, and interest rates then followed suit.

The reduction of purchasing power, which the inflation of money supply and eventually elevating price levels represent, should theoretically impact the demand for the US dollar.

As part of a CFA Institute research program run in cooperation with Georgetown University's McDonough School of Business in Washington, DC, in spring 2024, we asked a team of students in the university's Master of Science in Finance program to evaluate the reality of any de-dollarization trends and how they could impact the stability of capital markets.[5]

The conclusions from their work are mixed, yet they offer an opportunity to dig deeper into these topics:

- The United States' economic robustness and sheer size globally continue to act positively on the demand for the US dollar.
- Despite representing about a quarter of the world's GDP, however, the United States only accounts for about 10% of world exports, which applies negative pressure on the balance of payments and generates a current account deficit.
- The United States continues to enjoy deep and broad capital markets, at least twice as large as those in the EU or China.
- Despite an observed drop in the US dollar's share of allocated global reserves from its peak in 2000, the currency remains the dominant world reserve currency by a significant margin.
- The US dollar continues to represent about three-quarters of global foreign exchange transactions.
- Foreign demand for US government debt (Treasuries) appears to have fallen from its peak, such that foreign ownership of US Treasuries has fallen from 34% in 2012 to 23% in 2024.

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[5]Special thanks to the authors and members of the team for their outstanding work on the assignment: Andrew Rivers, CFA, Nikki Singh, Liana Tsanova, Dani Figueredo, Sotima Koussere, and James Pisula. We also would like to thank James J. Angel, PhD, CFP, CFA, associate professor and faculty affiliate, Psaros Center for Financial Markets and Policy at Georgetown University, for his involvement in making this program possible.

The report notes two primary factors that may contribute to currency failure: a lack of investor confidence and unsustainable government spending. In this regard, the report concludes that "fiscal irresponsibility and the continued reliance on borrowing to fund government operations could erode foreign creditors' confidence, potentially triggering a credit-liquidity spiral and prompting the withdrawal of foreign currency holders. Furthermore, the US government stands alone among primary reserve currencies in sustaining a prolonged current account deficit. This deficit has dual effects: wealth transfer to foreign entities and net selling of currency due to international trade."

CFA Institute set out to build on this inquiry by conducting a global member survey to capture the views of our members—finance professionals located all over the world—on the following issues:

1. Are the US government's finances sustainable?
2. Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund its expenses and interest obligations?
3. Will the US dollar lose reserve currency status over the next 5–15 years?
4. What factors would most likely contribute to the US dollar losing its reserve currency status?
5. Which currency is most likely to displace the US dollar as the world's prominent reserve currency?
6. Can the United States reduce its debt/GDP ratio to a more moderate level over the next 5–15 years?
7. What measures should the US government prioritize to reduce its debt/GDP ratio?

In the next two sections, we will provide context for our research, examining a number of metrics and statistics that are useful to keep in mind as we engage in the analysis of the survey results in the second part of the report.

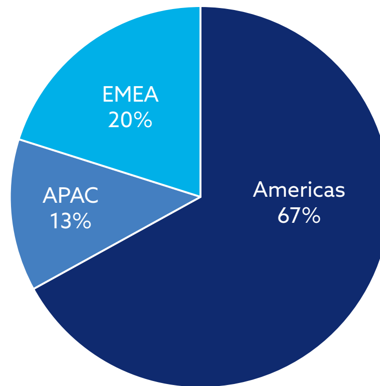
4. SURVEY METHODOLOGY AND DEMOGRAPHICS

The online survey ran from 15 to 31 July 2024. It was sent to a random sample of 103,739 CFA Institute members on a global basis. Where applicable, regional limitations of the data are explained on each chart.

We received 4,243 valid responses to the survey, resulting in a 4.1% response rate and a margin of error of ±1.47%, with a 95% confidence interval.

Exhibits 1–6 present the traditional set of demographic statistics on the population of members who responded to the survey.

Exhibit 1. Regional Distribution of Respondents



Note: EMEA stands for Europe, the Middle East, and Africa; APAC stands for Asia Pacific; Americas represents North and South America.

Exhibit 2. Distribution of Respondents Broken Down by Largest Individual Markets

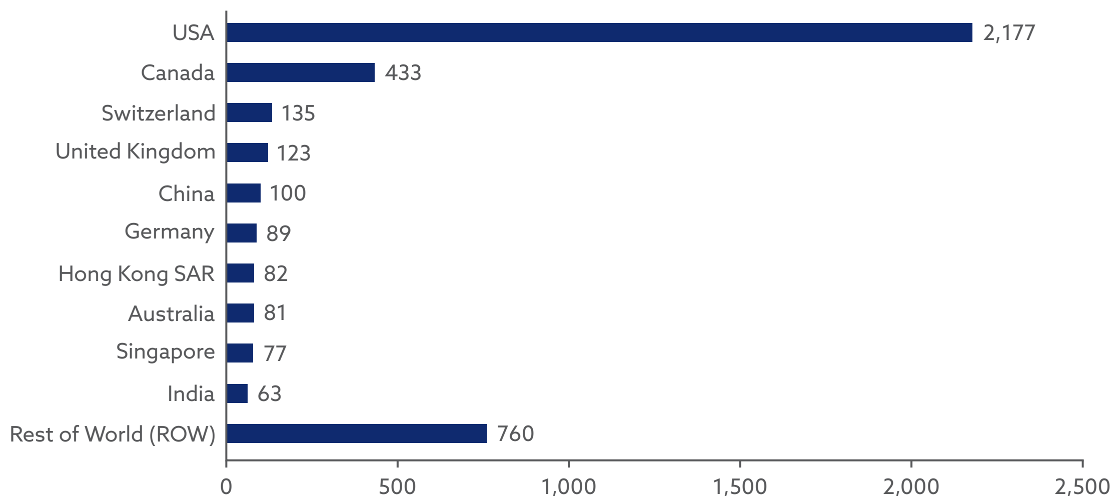


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Exhibit 3. Distribution of Respondents According to Employer Type

Employer Type	Respondents
Asset Management/Investment Firm	1,267
No Response	606
Private Wealth Management Firm/Family Office/Trusts	476
Other (please specify)	370
Commercial Bank	302
Consulting Firm	266
Brokerage	129
Insurance	126
Investment Bank	122
Information Technology or Software	98
Government or Regulator	94
University/Educational Institution	84
Pension Fund	82
Manufacturing	50
Utilities (e.g., Oil and Gas, Energy)	46
Accounting Firm	42
Central Bank	25
Endowment	22
Credit Rating Agency/Firm/Bureau	17
Business or Knowledge Process Outsourcing	6
Sovereign Wealth Fund	6
Securities Exchange	4
Verification Firm	2

0 200 400 600 800 1,000 1,200 1,400

Exhibit 4. Distribution of Respondents According to Gender

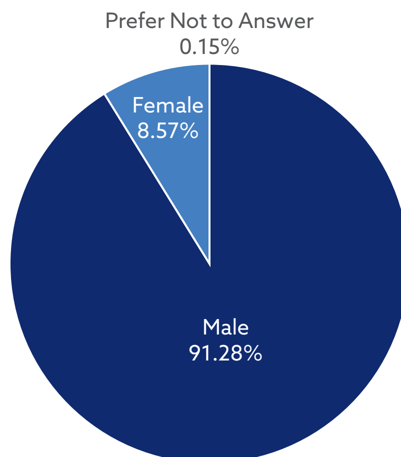


Exhibit 5. Distribution of Respondents According to Age Range

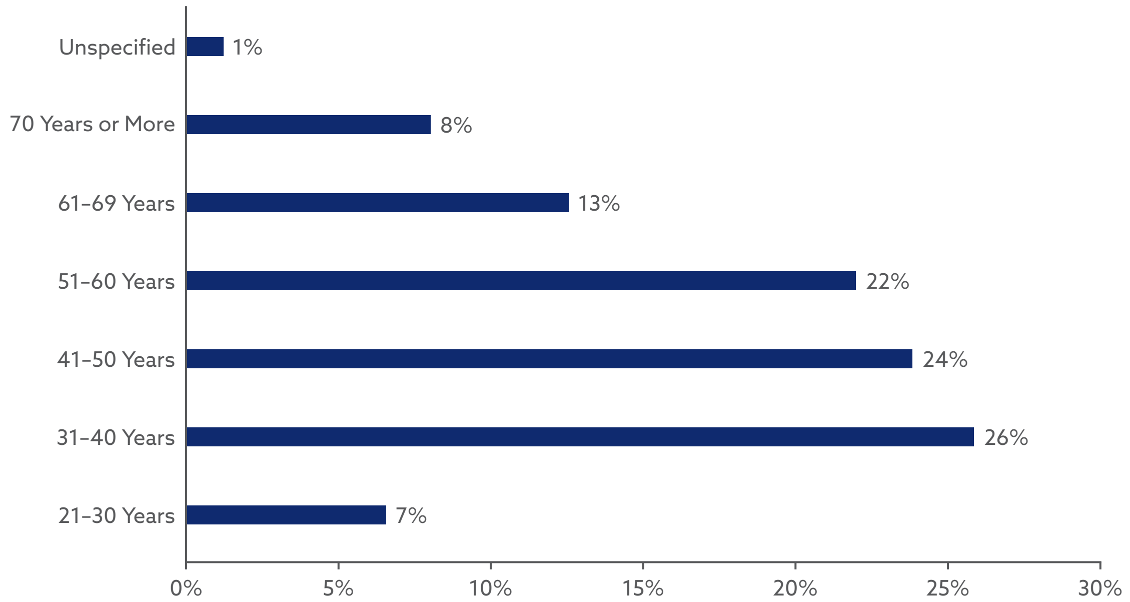
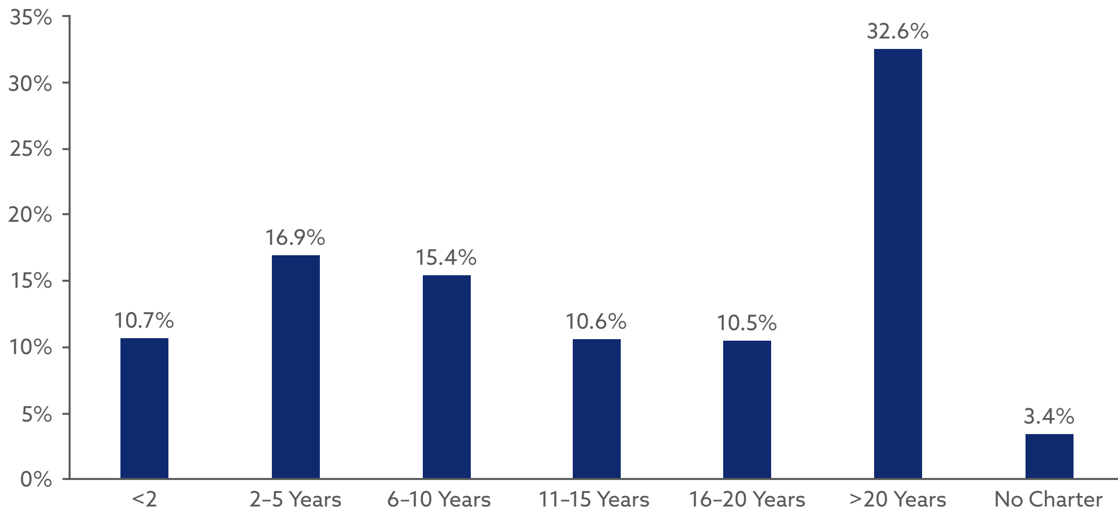


Exhibit 6. Distribution of Respondents by Number of Years with CFA Charter



Notes on Regional Definitions for Terms Used in this Report:

Term	Definition
ASEAN	According to the Council on Foreign Relations, the Association of Southeast Asian Nations (ASEAN) is a regional grouping composed of ten members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.
BRICS	This group refers to Brazil, Russia, India, China, and South Africa. We also include two recent additions to the group: Egypt and the United Arab Emirates.
EU	The European Union consists of 27 countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. We include all except Slovakia and Estonia because none of the respondents are from those countries.
Developed markets and emerging markets	We use the MSCI Market Classification for developed markets and emerging markets. For our analysis, we removed any country that has no respondents.[6]
OPEC and OPEC+	Current OPEC members include Saudi Arabia, the United Arab Emirates, Kuwait, Iraq, Iran, Algeria, Libya, Nigeria, Congo, Equatorial Guinea, Gabon, and Venezuela. OPEC+ additionally includes Russia, Azerbaijan, Kazakhstan, Bahrain, Brunei, Malaysia, Mexico, Oman, South Sudan, and Sudan. For our analysis, we removed any country that has no respondents.
Sub-Saharan Africa	As per the World Bank, Sub-Saharan Africa includes 48 countries. Respondents from the region are from the following 11 countries: Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe.
MENA	According to the World Bank, MENA (Middle East and North Africa) includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, West Bank and Gaza, and Yemen. We received responses from members in Bahrain, Egypt, Israel, Jordan, Kuwait, Lebanon, Malta, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
South America	We use the United Nations Statistics Division's list of states/territories in the region of South America.[7] We received responses from Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.

[6]See www.msci.com/our-solutions/indexes/market-classification.

[7]See https://unstats.un.org/unsd/methodology/m49/.

5. STATISTICS FOR BACKGROUND AND CONTEXT

This section provides a collection of statistics and charts to help put in perspective the findings from the survey.

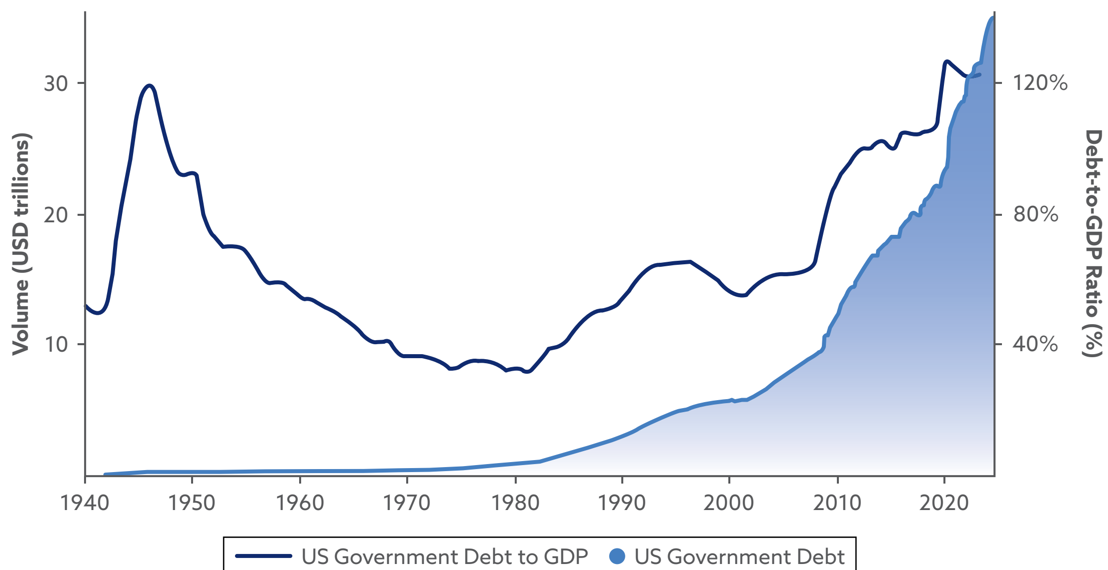
The data show a number of cross-currents that are exerting either positive or negative pressure on the demand for the US dollar, regardless of or in parallel with the various theories underpinning global economics.

5.1. Total Amount of US Federal Government Debt

Exhibit 7 presents the evolution of the volume of total debt issued by the US federal government since 1940 (in USD trillions) on the left-hand axis and as a proportion of the country's nominal GDP on the right-hand axis.

Exhibit 8 itemizes the total US federal government debt by security class, as of the end of August 2024.

Exhibit 7. Total US Federal Government Debt, 1940–June 2024



Sources: TradingEconomics.com; data from Office of Management and Budget.

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Exhibit 8. Breakdown of Total US Federal Government Debt by Security Class, 31 August 2024 (USD millions)

Security Type	Security Classification	Debt Held by the Public	Intragovernmental Holdings
Marketable	Bills	$6,120,981.00	$821.00
Marketable	Notes	$14,186,936.00	$5,269.00
Marketable	Bonds	$4,650,816.00	$6,742.00
Marketable	Treasury Inflation-Protected Securities (TIPS)	$2,031,564.00	$633.00
Marketable	Floating Rate Notes	$587,537.00	$41.00
Marketable	Federal Financing Bank	—	$4,514.00
Nonmarketable	Domestic Series	$15,171.00	—
Nonmarketable	State and Local Government Series	$106,178.00	—
Nonmarketable	United States Savings Securities	$161,845.00	—
Nonmarketable	Government Account Series	$302,452.00	$7,070,031.00
Nonmarketable	Other	$4,525.00	—
Total		$28,168,005.00	$7,088,051.00
Total (Public + Intragovernmental Holdings)		$35,256,056.00	

Source: "U.S. Treasury Monthly Statement of the Public Debt (MSPD)," Treasury.gov. https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/summary-of-treasury-securities-outstanding.

As of June 2024, the five largest foreign holders of US Treasury securities were Japan, China, the United Kingdom, Luxembourg, and Canada. **Exhibit 9** shows the amount and proportion of US Treasury securities held by the top 10 countries in June 2024.

Exhibit 9. Foreign Country Holders of US Treasury Securities, June 2024 (USD billions)

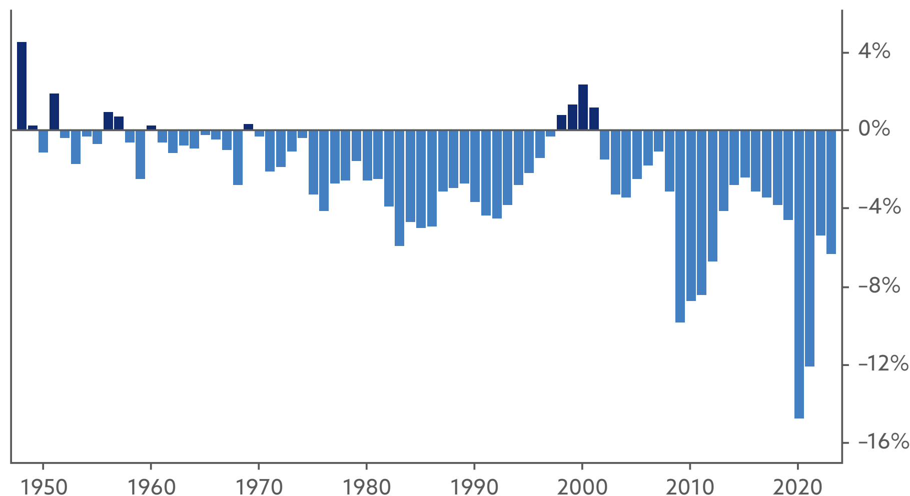
Country	Volume of Holdings	% of Total US Debt
Japan	1117.7	3.21%
Mainland China	780.2	2.24%
United Kingdom	741.5	2.13%
Luxembourg	384.2	1.10%
Canada	374.8	1.08%
Cayman Islands	319.4	0.92%
Belgium	318	0.91%
Ireland	308	0.88%
France	307.2	0.88%
Switzerland	287.1	0.82%

Sources: "Volume of Holdings" data are from "Table 5: Major Foreign Holders of Treasury Securities," Treasury International Capital (TIC) System: https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.txt. The "% of Total US Debt" data are from the authors' calculations based on the data in the "Volume of Holdings" column and the total US debt in June 2024.

5.2. US Federal Government Budget

Exhibit 10 presents the evolution of the ratio of US federal government annual budget deficit or surplus to the country's nominal GDP since 1948.

Exhibit 10. US Federal Government Budget Surplus or Deficit to Nominal GDP Ratio, 1948–2023



Sources: TradingEconomics.com; data from US Treasury.

Exhibit 11. Comparative Analysis of Debt/GDP Ratio and Budget/GDP Ratio in Various Markets, in 2000 and 2023 (debt figures as of December)

Market	Debt to GDP Ratio (%)		Budget Deficit (–) or Surplus (+) to GDP Ratio (%)		Percentage of Government Debt Held by Foreign Investors (%)
	2000	2023	2000	2023	2023
United States	55.6	122.3	+2.3	–6.3	23.3
European Union	66.5	81.7	–1.2	–3.5	42.8
Germany	59.3	63.6	–1.6	–2.5	45.2
France	59.5	110.6	–1.3	–5.5	51.0
United Kingdom	28.3	97.6	+1.4	–4.4	31.0
Japan	135.4	266.0	–7.6	–4.6	13.5
China	23.0	83.6	–2.8	–5.8	3.0

Sources: TradingEconomics.com; US Department of the Treasury; Eurostat; HM Treasury (UK); Ministry of Finance (Japan); IMF.org. The following sources were used to collect the data for foreign holders of sovereign debt: United States: US Department of the Treasury, "Securities (B): Portfolio Holdings of U.S. and Foreign Securities." https://home.treasury.gov/data/treasury-international-capital-tic-system-home-page/tic-forms-instructions/securities-b-portfolio-holdings-of-us-and-foreign-securities. EU, Germany, and France: Eurostat, "General Government Debt." https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_ggd/default/table?lang=en. (The EU figure was calculated as the weighted average of EU country members.) United Kingdom: HM Treasury, "Debt Management Report 2024–25" (March 2024). https://assets.publishing.service.gov.uk/media/65e759a9ce8540001c12c412/Debt_Management_Report.pdf. Japan: Financial Bureau, Ministry of Finance, "Debt Management Report: The Government Debt Management and the State of Public Debts—2024" (2024, p. 104). www.mof.go.jp/english/policy/jgbs/publication/debt_management_report/2024/esaimu2024.pdf. China: Tracking Global Demand for Emerging Market Sovereign Debt database, International Monetary Fund.

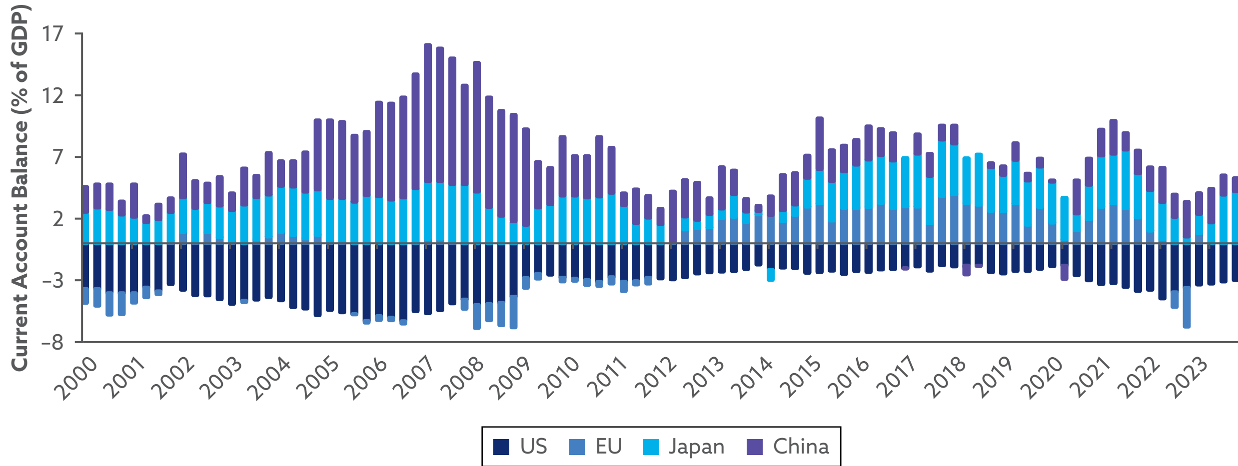
5.3. An International Perspective on Government Debt and Budget Ratios

Exhibit 11 presents a comparative analysis of the debt to GDP ratio and the budget to GDP ratio in various key economic markets around the world in 2000 and 2023. The exhibit also shows the percentage of each jurisdiction's total government debt held by foreign investors, which may be interpreted as an indicator of the extent to which government funding in the jurisdiction depends on foreign investors.

5.4. US and International Current Account Balances

Exhibit 12 demonstrates how the United States has been running current account deficits for a prolonged period of time relative to its international counterparts. In theory, such a situation should exert negative pressure on the demand for the US dollar.

Exhibit 12. Current Account Balance in the United States, China, Japan, and the EU as a Proportion of Nominal GDP, 2000–Q3 2023

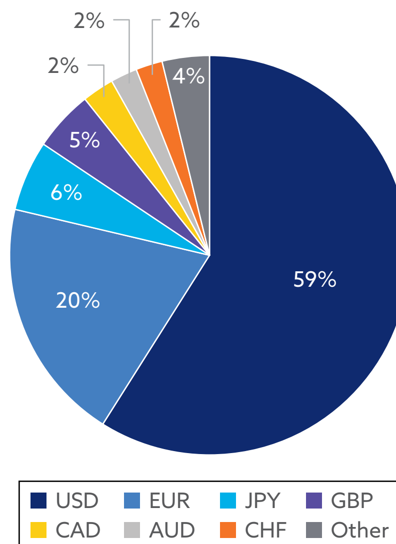


Sources: International Monetary Fund; Moody's Investor Service.

5.5. The US Dollar as a Reserve Currency

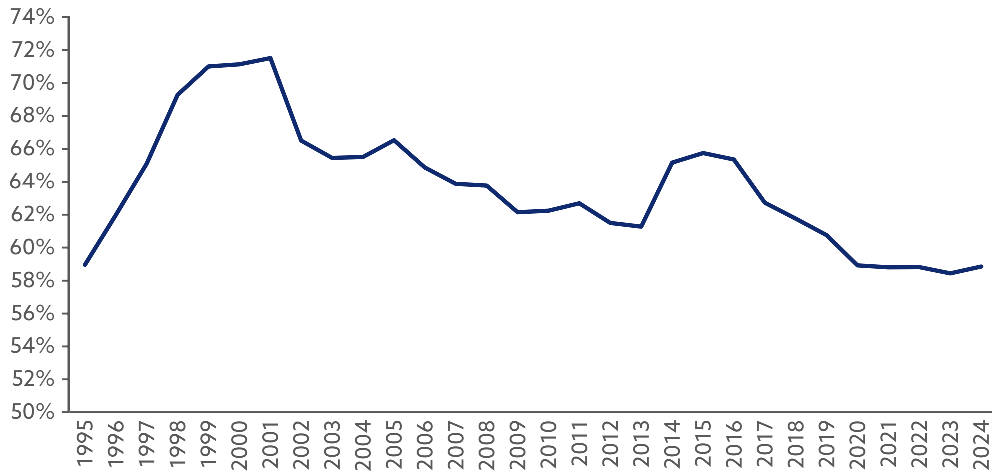
Exhibit 13 provides a perspective on the proportion the US dollar represents as a world reserve currency, in terms of central bank holdings. **Exhibit 14** shows how the US dollar share of world reserves has gradually decreased over time, after a record high of 71.5% in 2001.

Exhibit 13. Allocated Foreign Exchange Reserves in the World, by Currency, Q1 2024



Source: International Monetary Fund, Currency Composition of Official Foreign Exchange Reserves (COFER) database. www.imf.org/en/Data.

Exhibit 14. Share of the US Dollar as a Proportion of World Foreign Exchange Reserves, 1995–2024



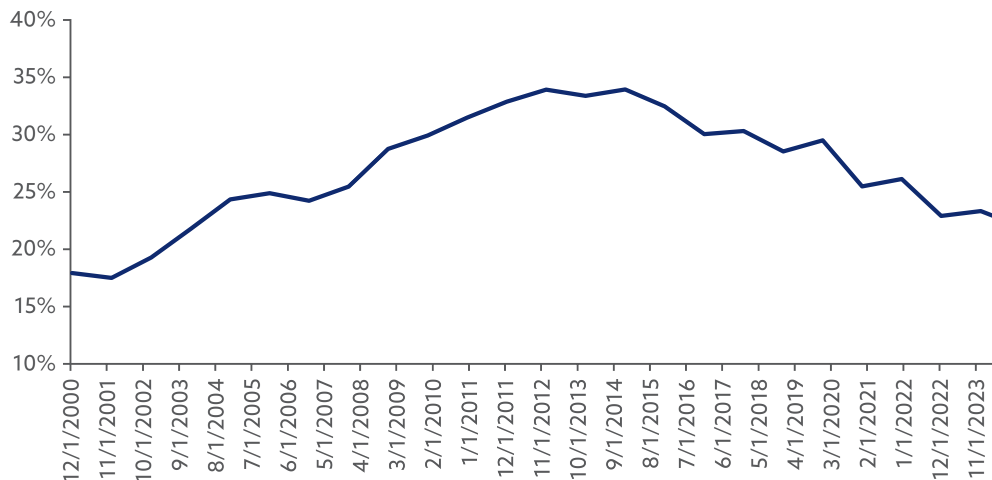
Source: International Monetary Fund, COFER database. www.imf.org/en/Data.

5.6. US Government Debt Held by Foreign Investors

Exhibit 15 shows that the proportion of US government debt held by foreign investors has been falling since 2012, when their share represented about 34% of all US federal government debt.

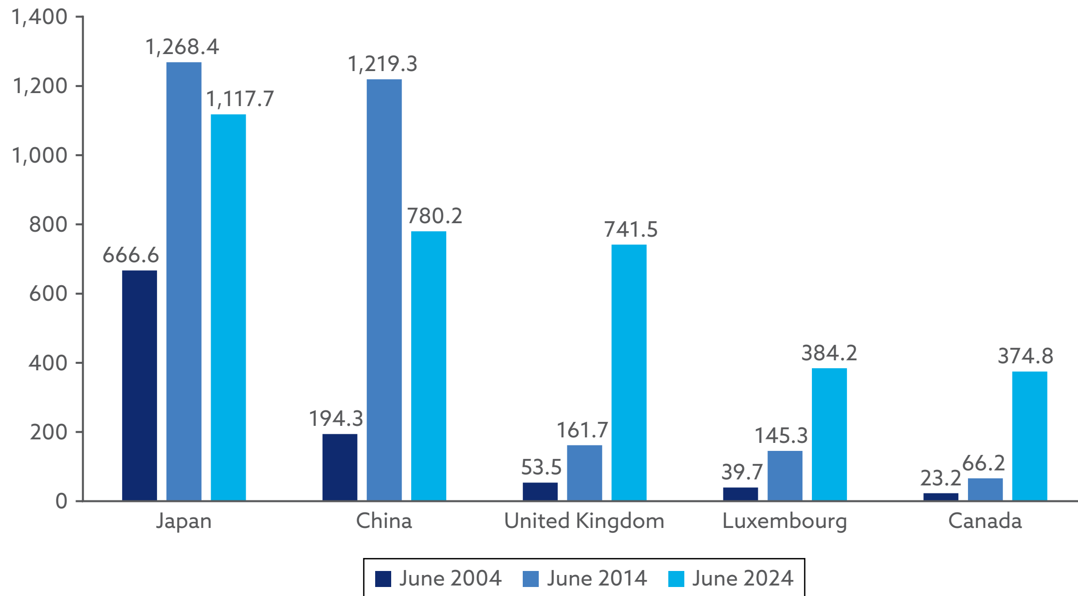
Exhibit 16 shows that the amount of debt held by the main foreign investors in US government debt has fallen over the last 10 years.

Exhibit 15. US Government Debt Held by Foreign Investors, 2000–2024



Source: US Department of the Treasury, "Securities (B): Portfolio Holdings of U.S. and Foreign Securities." https://home.treasury.gov/data/treasury-international-capital-tic-system-home-page/tic-forms-instructions/securities-b-portfolio-holdings-of-us-and-foreign-securities.

Exhibit 16. US Foreign-Owned Debt by Top Five Holding Countries, as of June 2004, 2014, and 2024 (USD billions)

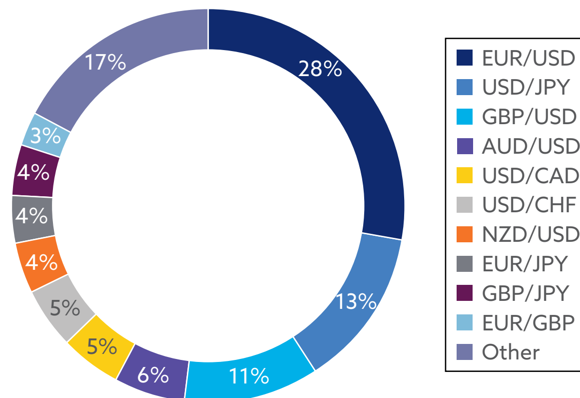


Source: Data are from the TIC System, "Major Foreign Holders of Treasury Securities." https://ticdata.treasury.gov/Publish/mfhhis01.txt.

5.7. The US Dollar Remains the Most Transacted Currency

Exhibit 17 presents the proportion of foreign exchange transactions represented by the most traded currency pairs in 2023, illustrating the global presence of the US dollar in international transactions.

Exhibit 17. Most Traded Currency Pairs: Proportion of Volume of Transactions, 2023

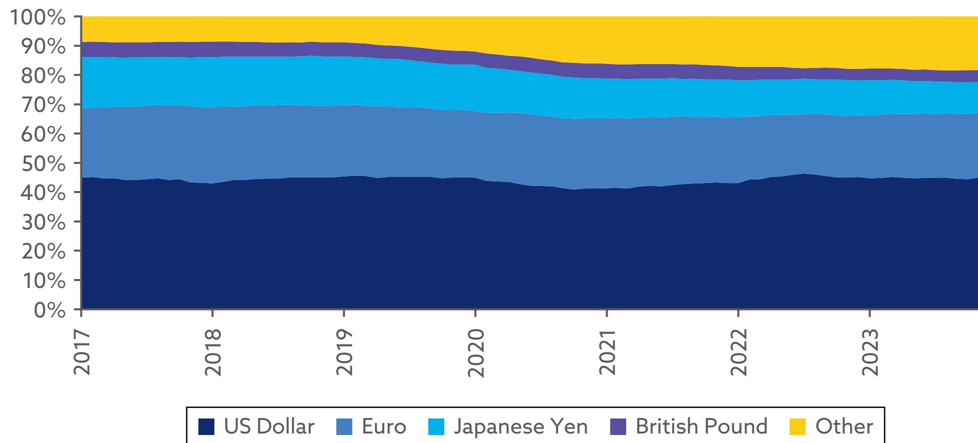


Source: FXSSI.com.

5.8. Global Debt Remains Denominated Predominantly in US Dollars

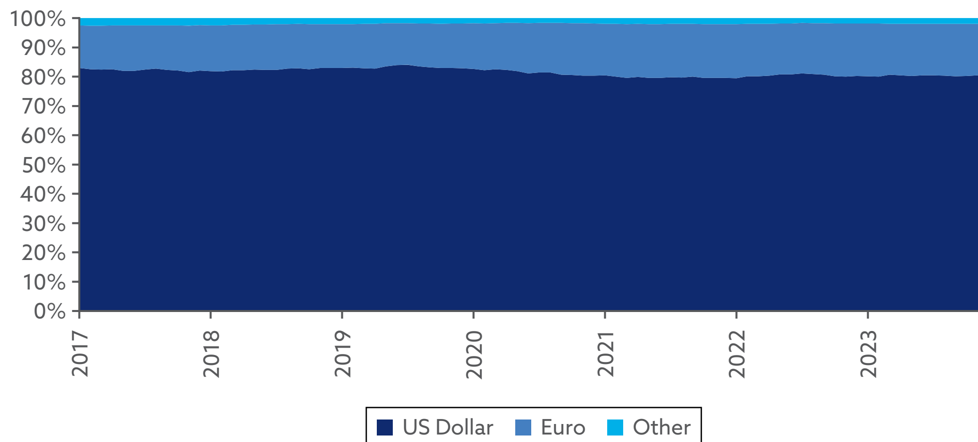
Exhibits 18 and 19 demonstrate that there continues to be positive pressure on the demand for the US dollar, simply because it remains the currency most used to issue corporate debt on a global basis.

Exhibit 18. Global Investment-Grade Bond Issuance, 2017–2023 (Nov)



Source: Bloomberg Fixed Income Indices.

Exhibit 19. Global High-Yield Bond Issuance, 2017–2023 (Nov)



Source: Bloomberg Fixed Income Indices.

6. SURVEY RESULTS AND ANALYSIS

This section presents a detailed analysis of the survey results.

We constructed the survey questions to logically follow the thought process we wanted to test with our members on a global basis.

Question 1	Do you think US government finances are sustainable, despite running crisis-level debt to GDP ratios and budget deficits?
Question 2	Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund government and interest obligations?
Question 3	Will the US dollar lose reserve currency status over the next 5–15 years?
Question 4	Please rank the factors that would most likely contribute to the US dollar losing its reserve currency status over the next 5–15 years.
Question 5	If the US dollar were to lose reserve currency status, which currency is most likely to displace the US dollar as the world's prominent reserve currency?
Question 6	Over the next 5–15 years, do you think the US will be able to reduce its debt/GDP ratio to a more moderate level?
Question 7	Please select up to three measures that you believe the US government should prioritize to reduce the debt/GDP ratio.

6.1. Are US Government Finances Sustainable?

Question 1: Do you think US government finances are sustainable, despite running crisis-level debt to GDP ratios and budget deficits?

We asked our global membership whether they believe US government finances are sustainable.

Main Learning Point:

By an overwhelming majority of 77% globally, respondents believe US government finances are not sustainable. **Exhibit 20** shows these results.

Exhibit 21 shows the global survey results on this question for specific regions and markets. The responses show interesting regional variations, with developed markets showing a markedly higher level of pessimism about the sustainability of US finances relative to emerging markets, in aggregate.

Answers to this question are also related to the age of respondents. **Exhibit 22** shows that in general, older respondents tended to express more pessimism about the sustainability of US finances than younger ones.

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Exhibit 20. Sustainability of US Finances: Global Survey Results

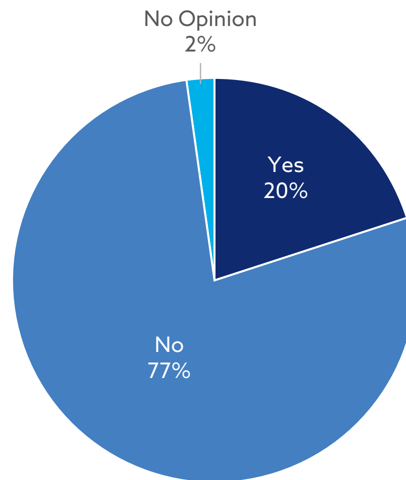


Exhibit 21. Sustainability of US Finances: Global Survey Results for Specific Regions and Markets

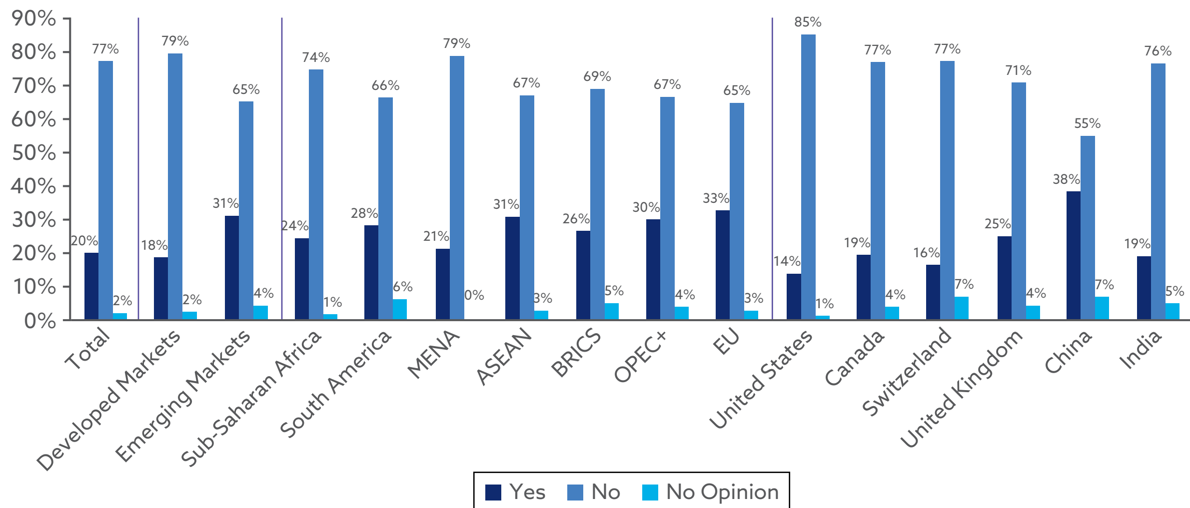
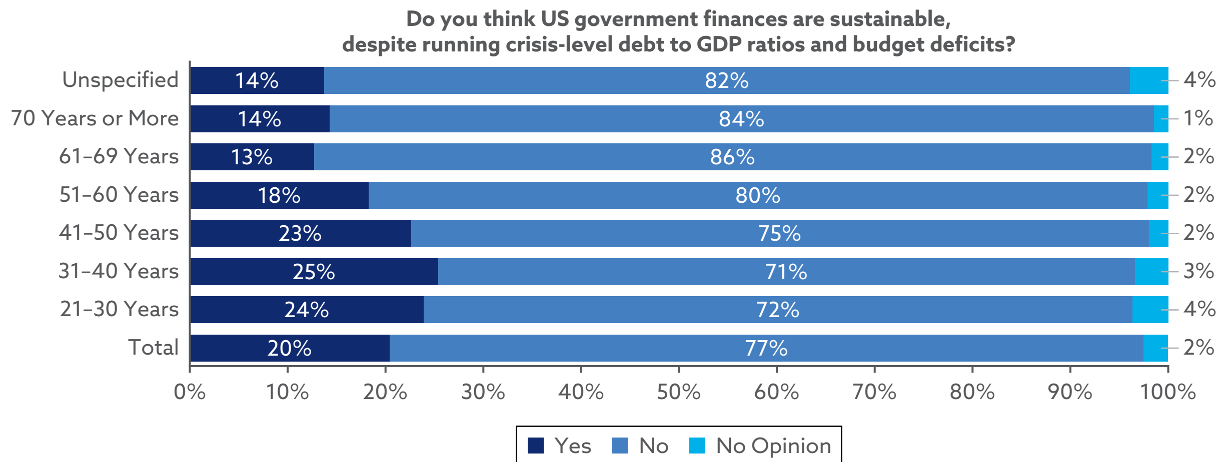


Exhibit 22. Sustainability of US Finances: Global Survey Results for Specific Age Groups



6.2. Level of Confidence in the US Government's Ability to Borrow to Fund Its Expenses and Interest Obligations

Question 2: Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund government and interest obligations?

We asked our global membership if they believe investors in US Treasuries are losing confidence in the US government's ability to borrow to fund government operations and interest obligations.

Main Learning Point:

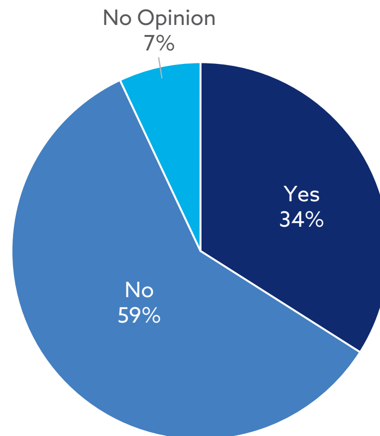
By a large majority of 59% globally, respondents do not believe investors are losing confidence in the US government's ability to borrow to fund its operations and interest obligations. **Exhibit 23** shows these results.

Results for this question indicate the major dichotomy revealed in this report. Although a large majority of respondents indicate a belief that US government finances are not sustainable (as shown in responses to Question 1), they also seem to believe that investors continue to have faith in the government's ability to borrow to fund its expenses and interest obligations (as shown in responses to Question 2).

To better understand the opinion of our members on this question, we have split the results for Question 2 in accordance with the professional occupation of the respondents. The category "Treasury Investors" corresponds to the

Exhibit 23. Level of Confidence in the US Government's Ability to Borrow: Global Survey Results

Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund government and interest obligations? (*N* = 4,118)



following subcategories that have been identified as possible investment specialists whose role may involve investing in US Treasuries in some capacity: Financial Adviser/Financial Planner/Wealth Manager, Institutional Investment Consultant, Investment Analyst, Investment Consultant, Investment Strategist, Portfolio Manager, Private Wealth Manager, Research Analyst, Investment Analyst, or Quantitative Analyst. In total, 1,502 respondents fit in this reconstituted category. **Exhibit 24** shows these results.

Exhibit 24. Level of Confidence in the US Government's Ability to Borrow: Global Survey Results Based on Professional Occupation of Respondents

Are investors in US Treasuries losing confidence in the US government's ability to borrow to fund government and interest obligations?

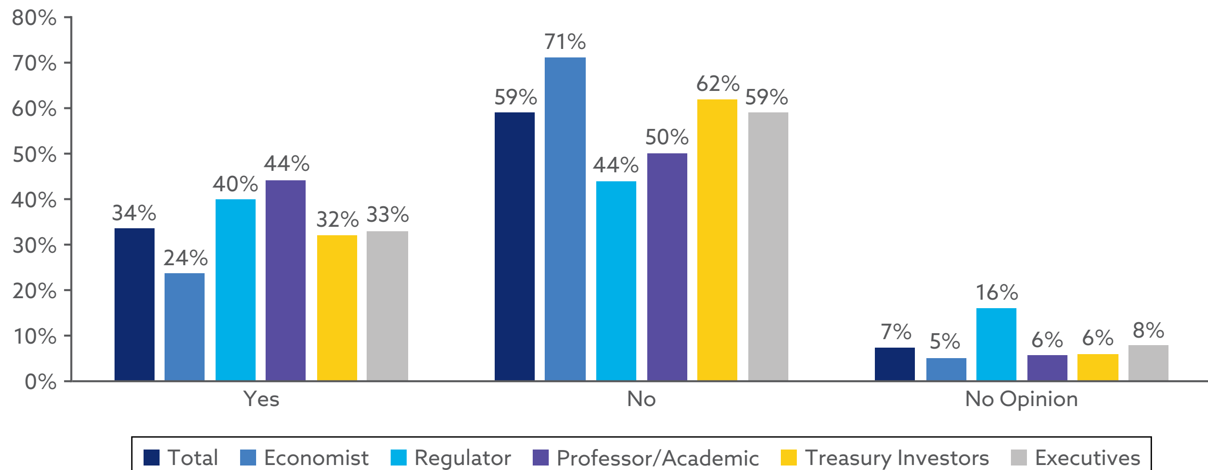
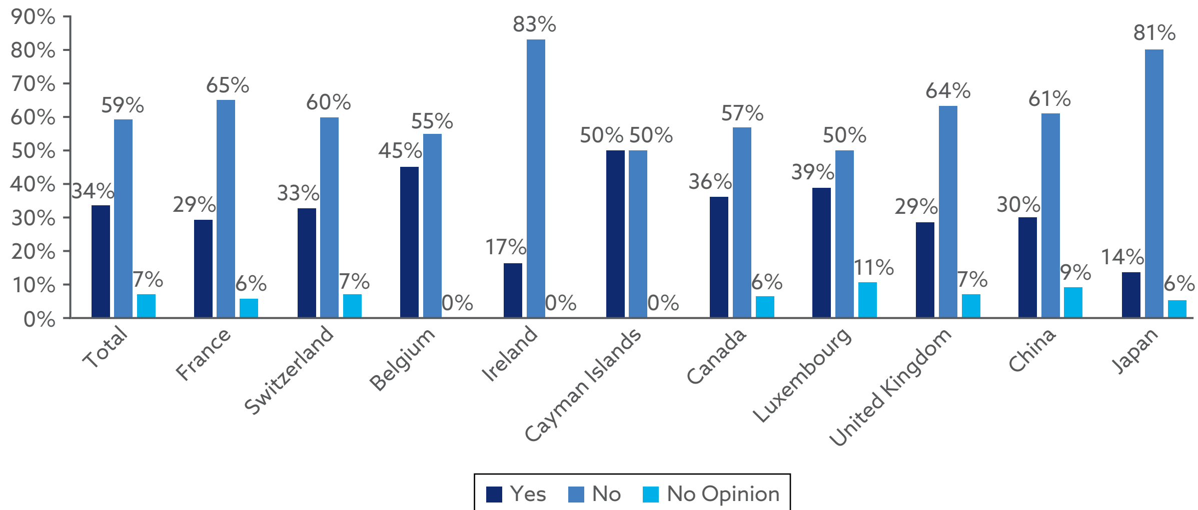


Exhibit 25. Level of Confidence in the US Government's Ability to Borrow: Global Survey Results for the 10 Largest Foreign Country Holders of US Treasury Securities



Economists, in general, indicated the highest level of rejection of the proposition that investors are losing confidence in the US government's ability to borrow.

Exhibit 25 presents the results on Question 2 for respondents from the 10 largest foreign country holders of US Treasury securities.

6.3. Will the US Dollar Lose Reserve Currency Status over the Next 5–15 Years?

Question 3: Will the US dollar lose reserve currency status over the next 5–15 years?

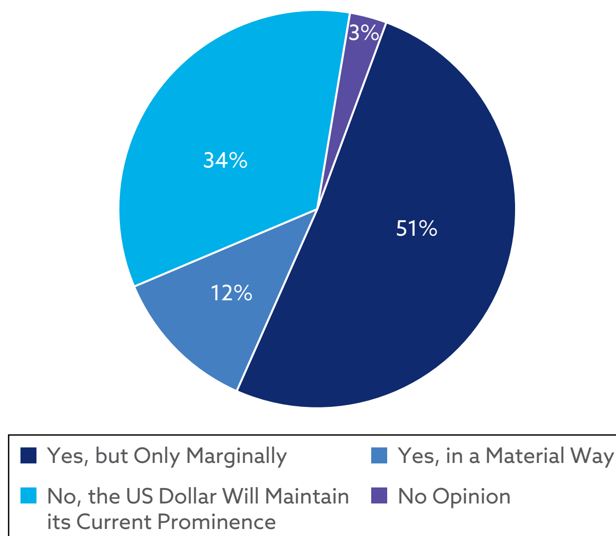
We asked our global membership if they believe the US dollar will lose its reserve currency status over the next 5–15 years.

Main Learning Point:

A 51% majority of the respondents believe the US dollar will lose reserve currency status but only marginally, while 12% believe it will lose this status in a material way. Approximately one-third of respondents (34%) disagreed and believe the US dollar will maintain its current prominent position. **Exhibit 26** shows these results.

On a global level, 63% of respondents were in agreement with the proposition that the US dollar will lose reserve currency status over the next 5–15 years in some way, either only marginally (51%) or materially (12%).

Exhibit 26. Will the US Dollar Lose Reserve Currency Status over the Next 5–15 Years: Global Survey Results



Regional splits show interesting results on this question, as shown in **Exhibit 27**.

Respondents who are the least positive about the US dollar's capacity to retain its reserve currency status included those from the BRICS, ASEAN (Association of Southeast Asian Nations),[8] and MENA groups, as well as India itself.

Obviously, a corollary can be established here, with renewed talks about de-dollarization, especially since the Russia–Ukraine war started in 2022.

The age factor seems to also play a role in responses to Question 3, as shown in **Exhibit 28**. In general, older respondents tend to be more pessimistic than their younger counterparts about the US dollar's capacity to maintain its reserve currency status. Only 26% of the 70+ age group believe the US dollar will retain its current prominence, compared to 38% of the 21–30 group.

[8]ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. See https://asean.org/member-states/.

Exhibit 27. Will the US Dollar Lose Reserve Currency Status over the Next 5–15 Years: Global Survey Results by Region/Market

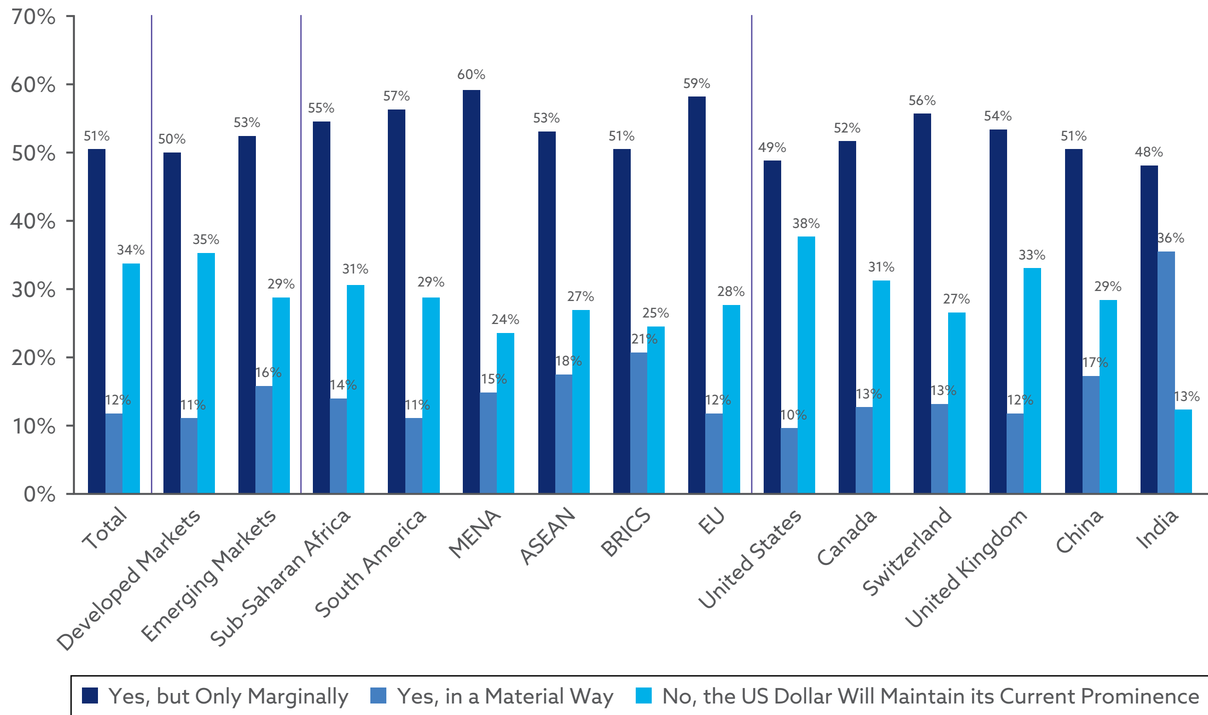
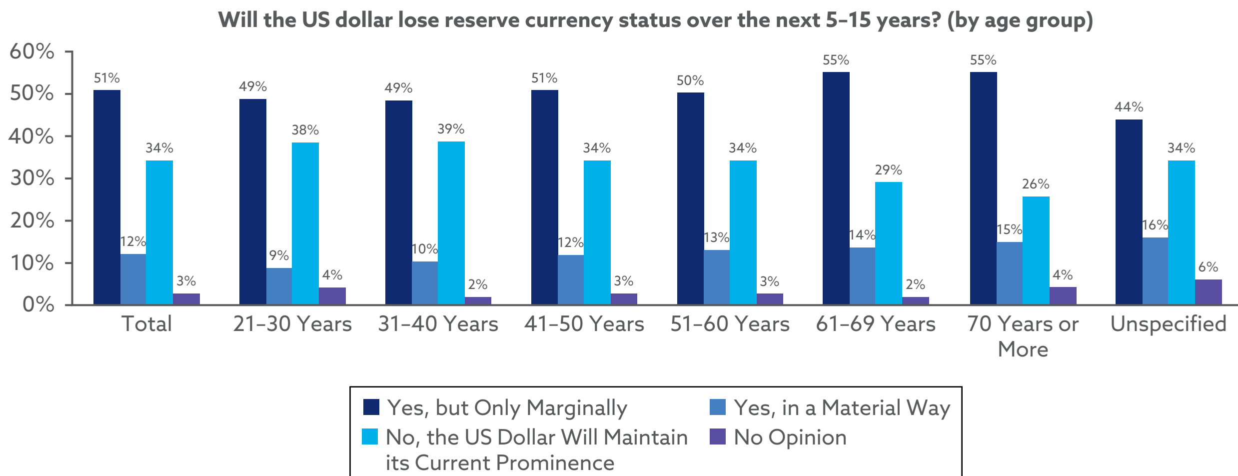


Exhibit 28. Will the US Dollar Lose Reserve Currency Status over the Next 5–15 Years: Global Survey Results by Age Group



6.4. The Factors That Would Most Likely Contribute to the US Dollar Losing Its Reserve Currency Status

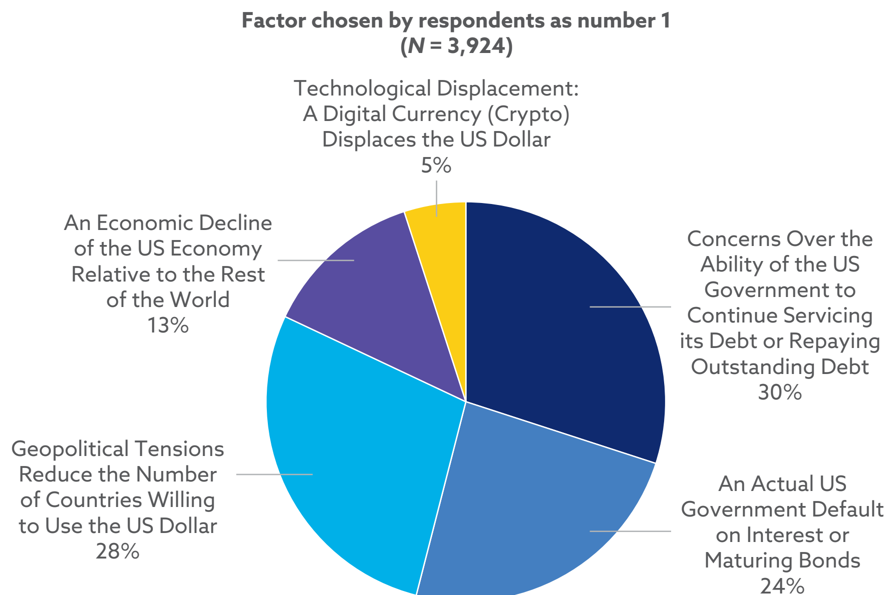
Question 4: Please rank the factors that would most likely contribute to the US dollar losing its reserve currency status over the next 5–15 years.

We asked our membership to rank the factors that would most likely contribute to the US dollar losing its reserve currency status, with a ranking of 1 being most likely and a ranking of 5 being least likely.

Main Learning Point:

The top two factors ranked 1 by respondents are concerns over the ability of the US government to continue servicing its debt (30%) and geopolitical tensions (28%). **Exhibit 29** shows the global results to this question for top rank 1 factors only.

Exhibit 29. Factors That Would Most Likely Contribute to the US Dollar Losing Its Reserve Currency Status: Global Survey Results for Factors Ranked 1 Only



The three factors chosen most often as the number one reason (i.e., Rank 1) for the US dollar to lose its reserve currency status are, on a global basis, as follows:

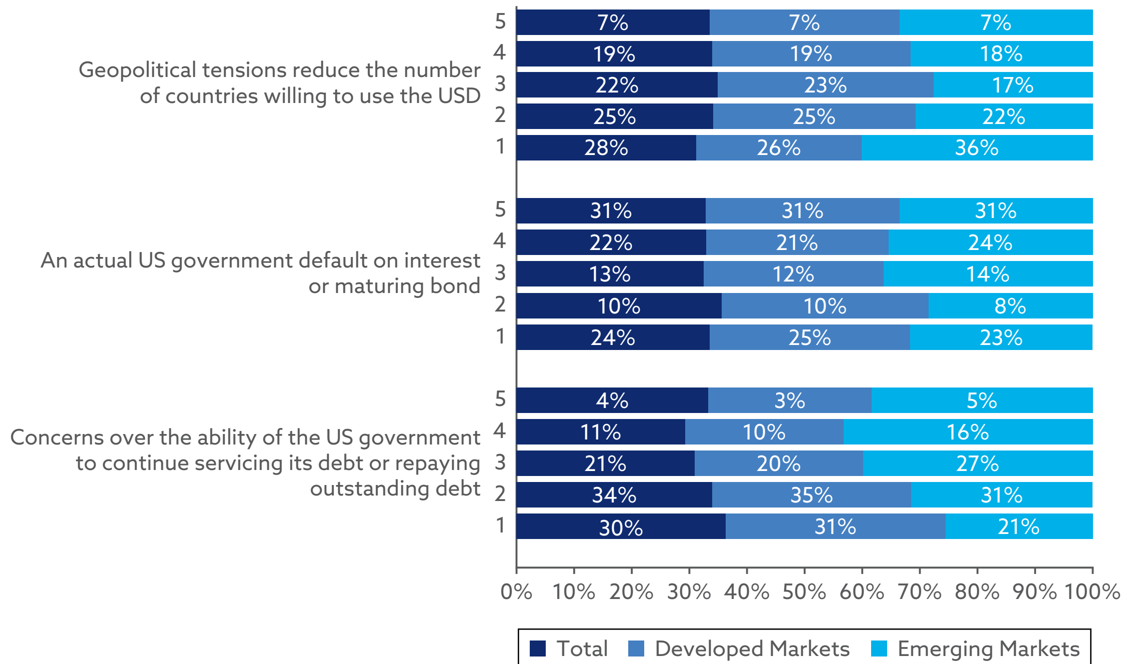
- Concerns over the ability of the US government to continue servicing its debt or repaying outstanding debt (30%)
- Geopolitical tensions reduce the number of countries willing to use the US dollar (28%)
- An actual US government default on interest or maturing bonds (24%)

We can establish a correspondence here with the previous results on the perceived sustainability of US government finances. The large number of respondents who chose geopolitical tensions is also not surprising given the international context that has been developing since 2020.

A regional prism also offers interesting insight into this question, as shown in **Exhibit 30**.

As shown in Exhibit 30, respondents in emerging markets showed a markedly higher propensity to determine that geopolitical tensions were going to be the

Exhibit 30. Factors That Would Most Likely Contribute to the US Dollar Losing Its Reserve Currency Status: Global Survey Results for Top Three Rank 1 Factors According to Level of Economic Development



Note: How to read the chart: vertically, the distribution (total = 100%) of responses per region for each option; horizontally, the discrete proportion of responses attributed to each rank for each option (total per row not equal to 100%).

primary factor explaining why the US dollar may lose reserve currency status. In turn, respondents in developed markets were primarily concerned about the ability of the US government to continue servicing its debt.

To summarize:

- The number one explanatory factor in emerging markets is geopolitical tensions (chosen by 36% of respondents, including 46% of respondents in India).
- The number one explanatory factor in developed markets is concerns over the ability of the US government to service its debt (chosen by 31% of respondents, including 35% of respondents in the United States).

6.5. The Currency or System Most Likely to Displace the US Dollar as the World's Prominent Reserve Currency

Question 5: If the US dollar were to lose reserve currency status, which currency is most likely to displace the US dollar as the world's prominent reserve currency?

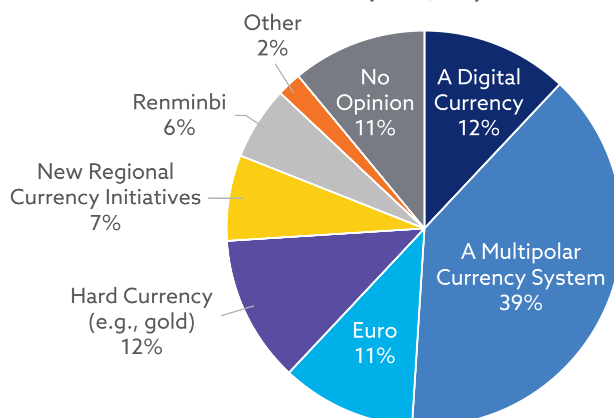
We asked our members to determine which other currency or system would be most likely to displace the US dollar as the world's prominent reserve currency.

Main Learning Point:

As shown in **Exhibit 31**, the concept of a multipolar currency system emerged as a clear choice, with a plurality of 39% of respondents on a global basis.

Exhibit 31. Alternative Currency Most Likely to Displace the US Dollar: Global Survey Results

If the US dollar were to lose reserve currency status, which currency is most likely to displace the US dollar as the world's most prominent reserve currency?
(*N* = 4,042)



A multipolar system has been discussed in various circles for several years. The war in Ukraine and its geopolitical, as well as economic, ramifications are precipitating a renewed interest in how such a system may establish itself and an interest in possible consequences for international money flows.[9] The general idea concerns whether multiple economic poles and currencies may act as reference points for international exchanges, in lieu of the US dollar, while enacting similar monetary stability.

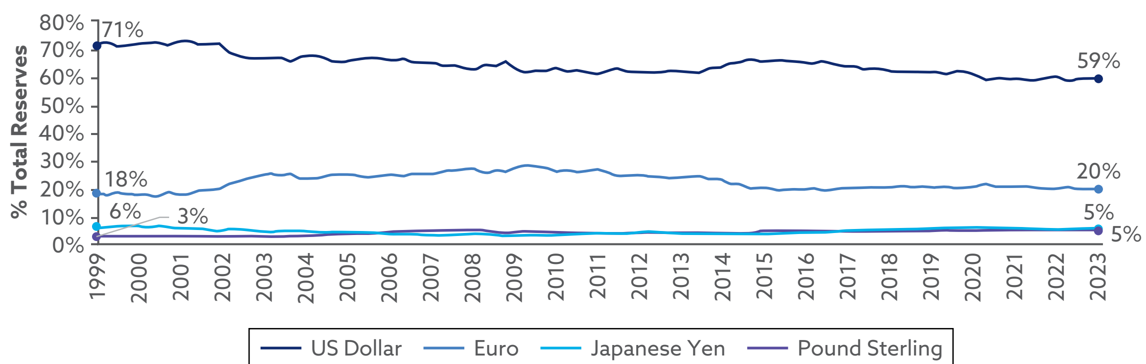
We presented in previous sections several data points and statistics in an attempt to identify whether any such trends are being developed.

While there is a clear, albeit still marginal, subsidence of the US dollar, it is not easy to identify any other single currency likely to displace the US dollar as the dominant reserve currency or means of exchange. That is likely why the results of our survey show a preference for a multipolar currency system.

As shown in **Exhibit 32**, the second currency in importance in terms of global reserves is the euro. The single currency of the EU represents about 20% of global reserves, which has not moved much since the euro's introduction in 1999. The euro captures a share approximately equivalent to the combined share of each EU member's currency prior to the formation of the euro.

Interestingly, despite China's growing share of the world's economy, the renminbi plays a relatively small role, capturing only 6% of the global responses to our survey question. Obviously, respondents continue to apply some

Exhibit 32. Relative Share of Principal World Currencies as a Proportion of Global Reserves since the Introduction of the Euro in 1999



Source: International Monetary Fund, COFER database. https://www.imf.org/en/Data.

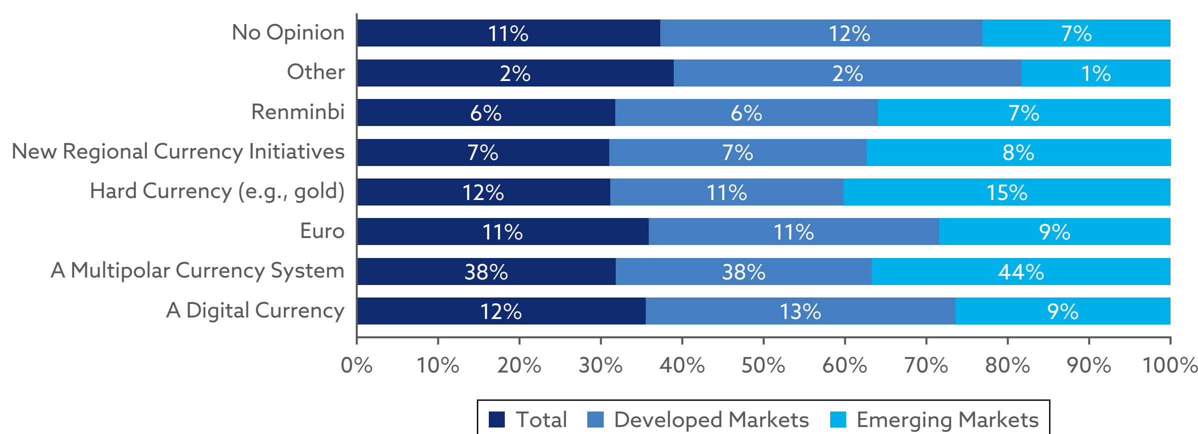
[9]See Emmanuel Farhi, "Toward a Multipolar System," *Finance & Development* (June 2019). https://www.imf.org/external/pubs/ft/fandd/2019/06/pdf/new-monetary-system-farhi.pdf.

skepticism regarding the effects of China's controlled system on foreign exchange and monetary flows in and out of its jurisdiction.

In terms of regional variations, a few observations can be made from **Exhibits 33, 34, and 35**:

- Respondents in emerging markets in general tend to disproportionately favor a multipolar currency system, relative to the overall answers and to developed markets.
- In particular, respondents in the BRICS (48%) and ASEAN (50%) groups expressed the most pronounced support for a multipolar currency system. Of note, the proportion in favor of this proposition reached 60% in India.
- Respondents in developed markets seem to be more supportive of the rise of digital currencies (cryptocurrencies) than those in emerging markets.
- The United States and Canada were the countries where support for the proposition that a digital currency could displace the US dollar was relatively the strongest; this choice was the second most popular for respondents in those countries, at 14% and 13%, respectively.
- In China, respondents showed more support for the proposition that the US dollar would be replaced by a hard currency (18%) than by the renminbi (15%).

Exhibit 33. Alternative Currency Most Likely to Displace the US Dollar: Global Survey Results According to Level of Economic Development



Note: How to read the chart: vertically, the distribution (total = 100%) of responses per region for each option; horizontally, the discrete proportion of responses attributed to each rank for each option (total per row not equal to 100%).

Exhibit 34. Alternative Currency Most Likely to Displace the US Dollar: Global Survey Results per Major Economic Regions

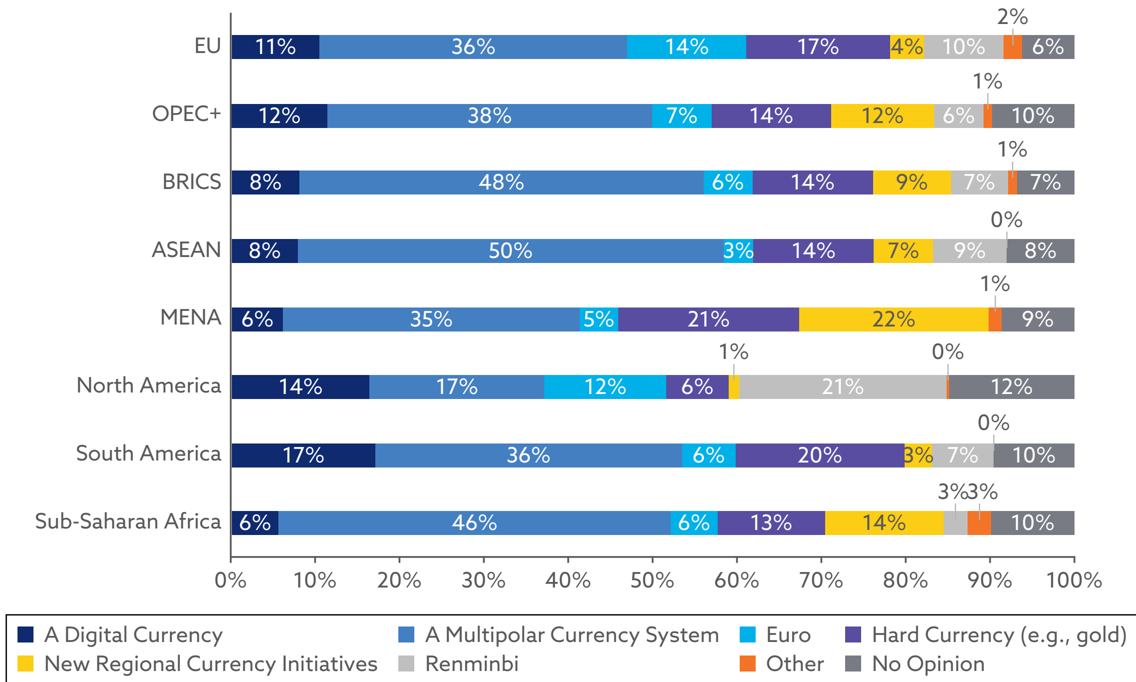
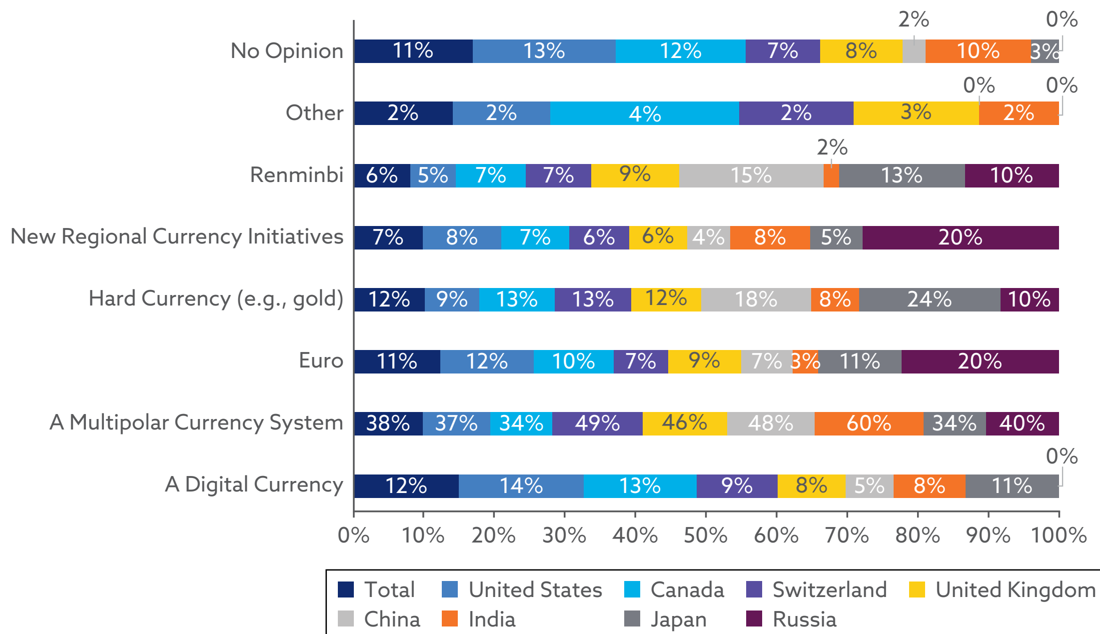


Exhibit 35. Alternative Currency Most Likely to Displace the US Dollar: Global Survey Results for a Selection of Important Individual Markets



6.6. Whether the United States Can Reduce Its Debt/GDP Ratio to a More Moderate Level

Question 6: Over the next 5–15 years, do you think the US will be able to reduce its debt/GDP ratio to a more moderate level?

We asked our membership globally whether they believe the US federal government will be able to reduce its debt/GDP ratio to a more moderate level over the next 5–15 years.

Main Learning Point:

The global results shown in **Exhibit 36** demonstrate an overwhelming view that this will not be the case, with a majority of 61% answering no to the question.

In this case, regional numbers did not vary that much and offer a reasonably consistent message across world markets.

The age factor, however, appears to indicate that older respondents are more optimistic about the US government's capacity to reduce its debt/GDP ratio than younger cohorts, as shown in **Exhibit 37**.

Exhibit 36. Whether the US Can Reduce Its Debt/GDP Ratio: Global Survey Results

Over the next 5–15 years, do you think the US will be able to reduce its debt/GDP ratio to a more moderate level? (*N* = 4,045)

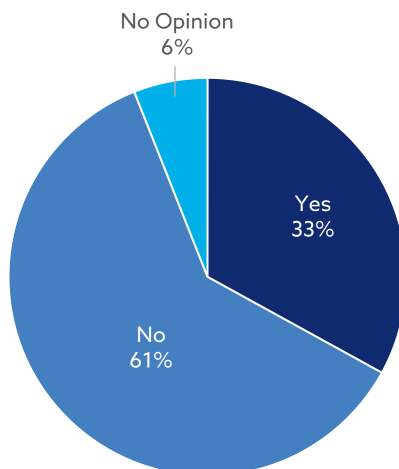
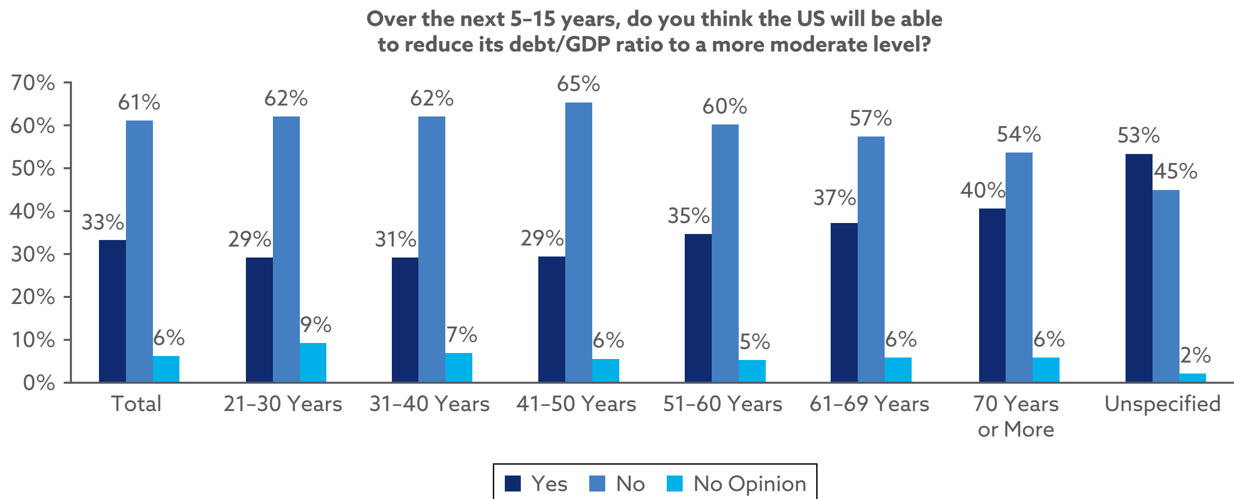


Exhibit 37. Whether the US Can Reduce Its Debt/GDP Ratio: Global Survey Results per Age Group



6.7. The Measures the US Government Should Prioritize to Reduce Its Debt/GDP Ratio

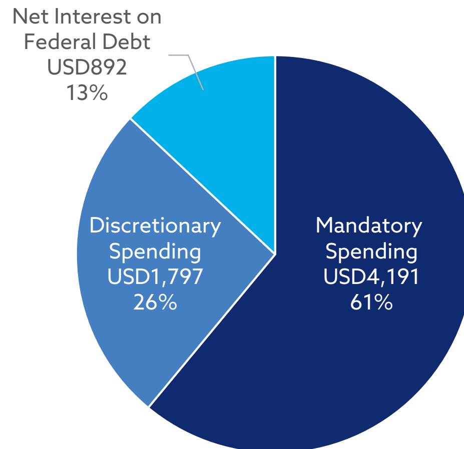
The US Department of the Treasury is the national treasury and finance department of the US federal government. In this capacity, it manages the federal government's spending (outlays), which are divided into three groups:

- **Mandatory spending**
  The portion of the budget legislated by the US Congress multiple years in advance, according to rules designed to establish the circumstances under which individuals will receive benefits, largely consisting of spending for Social Security, Medicare, and Medicaid
- **Discretionary spending**
  The portion of the budget decided by the US Congress each year through the appropriation process, with military spending, education, and health benefits typically being the largest categories
- **Net interest paid on the federal government debt**
  The interest paid by the government less the interest and investment income it receives

According to the Congressional Budget Office, the federal budget for 2024 amounts to USD6.88 trillion in outlays, or 24.2% of GDP, composed as depicted in **Exhibit 38**.

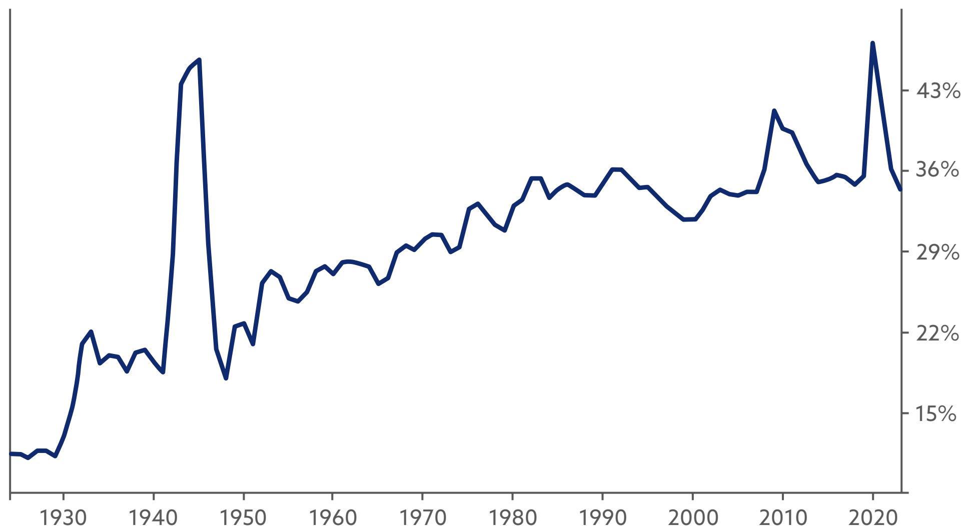
Exhibit 39 shows how the total US federal government spending has evolved over time, since 1924, as a proportion of nominal GDP.

Exhibit 38. US Federal Government Budget for 2024 (USD billions)



Source: Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2024 to 2034—Executive Summary" (June 2024). www.cbo.gov/system/files/2024-06/60039-Executive-Summary.pdf.

Exhibit 39. Total US Federal Government Spending as a Proportion of Nominal GDP, Since 1924



Sources: TradingEconomics.com; data from US Bureau of Economic Analysis.

Question 7: Please select up to three measures that you believe the US government should prioritize to reduce the debt/GDP ratio.

We asked our membership to select the measures they believe the US government should prioritize to reduce its debt/GDP ratio.

Main Learning Point:

On a global basis, a large majority (69%) of CFA Institute members selected nonmandatory spending among the three key measures the government should prioritize (see **Exhibit 40**). A majority of 52% also selected mandatory spending as a priority target.

Interestingly, only a minority (35%) of respondents believe the government should count on budget deficits and inflation to naturally reduce the relative value of debt as compared to GDP. In other words, only a minority of members agree with the idea that debt monetization should be prioritized.

Less than half of respondents (47%) agree with raising taxes to increase revenue. Age is an interesting explanatory factor in this regard. As shown in **Exhibit 41**, younger cohorts were relatively more in favor of reductions in nonmandatory spending, while older cohorts preferred reductions in mandatory spending.

Exhibit 40. Measures the US Government Should Prioritize to Reduce Its Debt/GDP Ratio: Global Survey Results

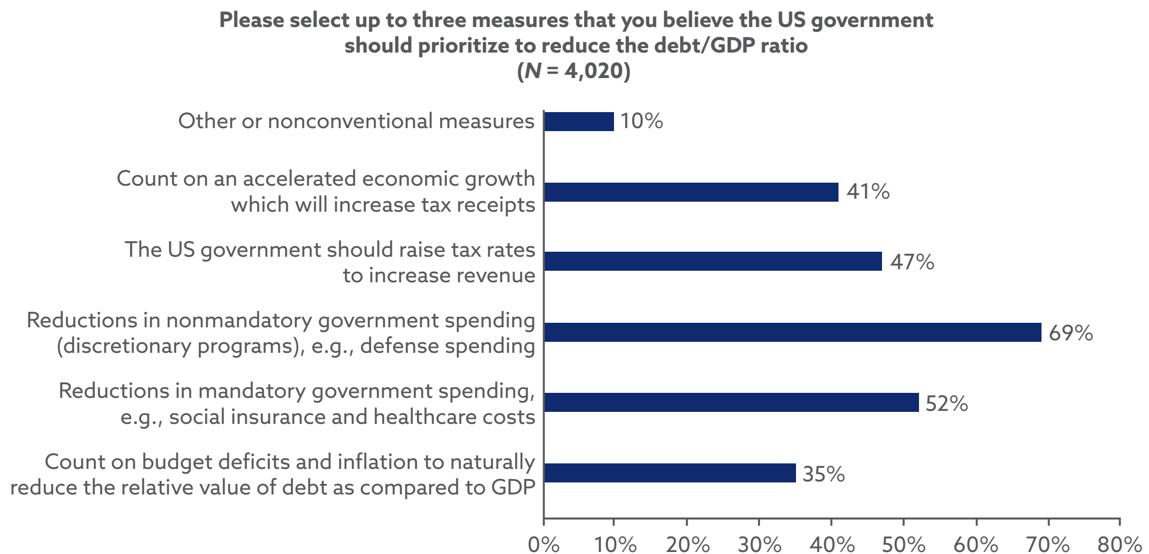
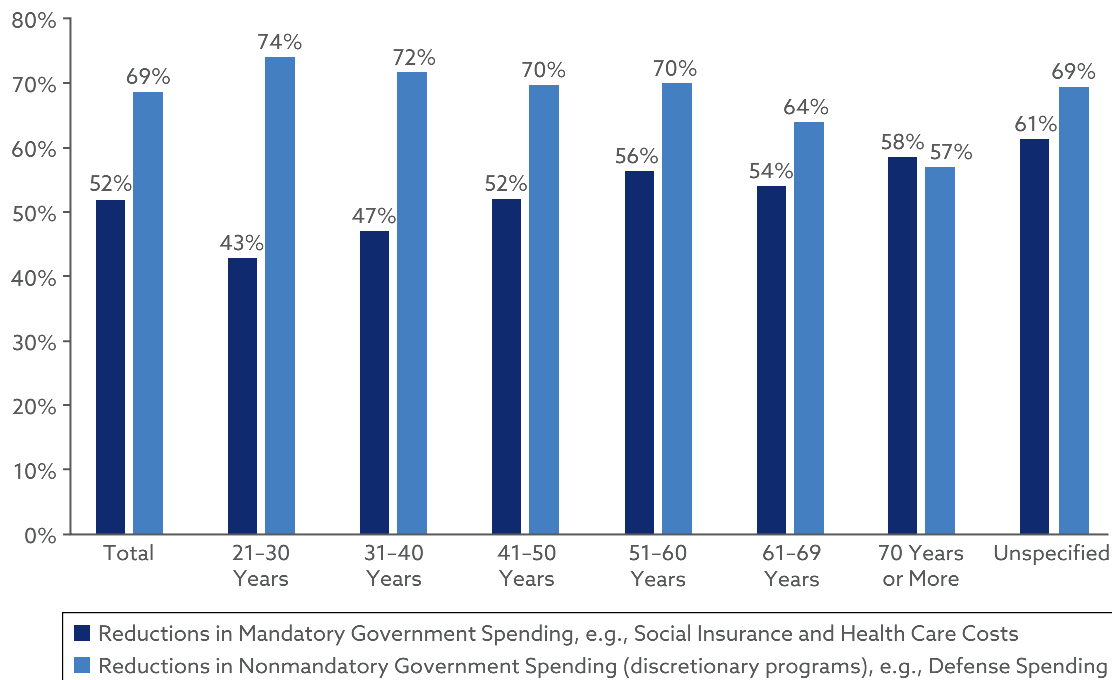


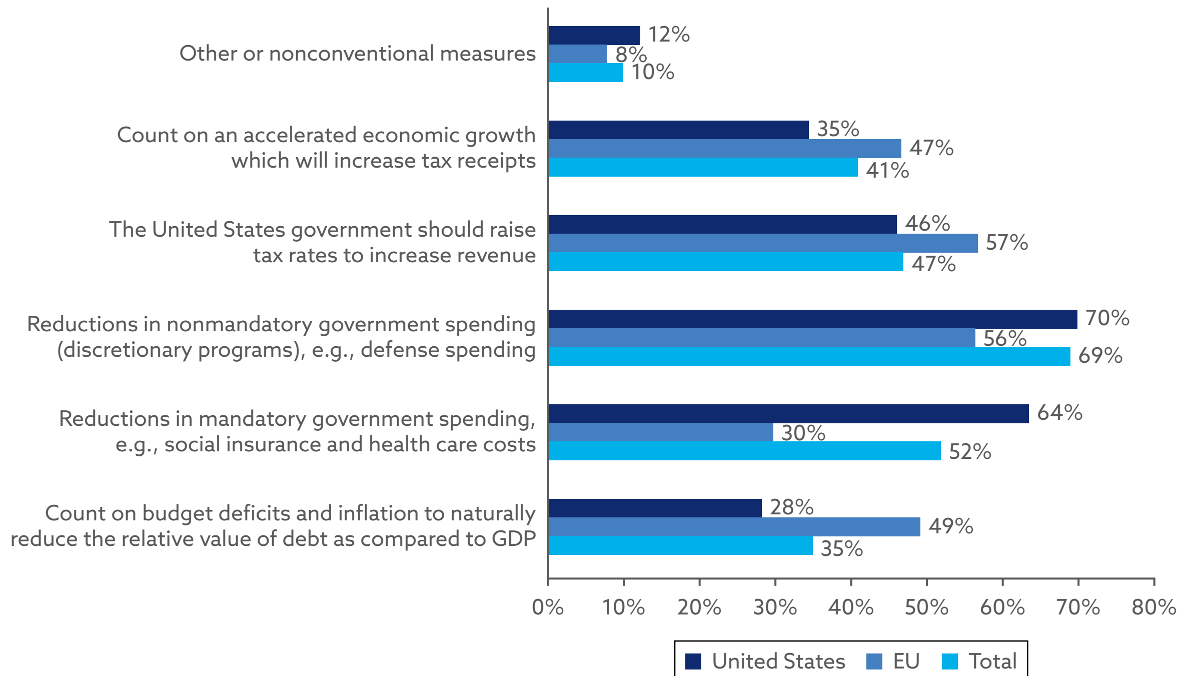
Exhibit 41. Measures the US Government Should Prioritize to Reduce Its Debt/GDP Ratio: Global Survey Results by Age Group



From a regional perspective, the typical cultural differences between the EU and the United States are also on display, as evidenced in **Exhibit 42**. As we have seen in other surveys, respondents in the EU tend to be more favorable than their North American counterparts toward raising taxes and counting on future growth to fund deficits, while rejecting in greater proportions spending cuts as a measure to prioritize. We saw similar results in our survey reports on the impact of the COVID-19 crisis on capital markets,[10] where EU respondents were much more favorable to a rising role of the government in the economy than their North American counterparts.

[10]See CFA Institute, "Is the Coronavirus Rocking the Foundations of Capital Markets?" (June 2020). https://rpc.cfainstitute.org/research/surveys/is-the-coronavirus-rocking-the-foundations-of-capital-markets. See also CFA Institute, "COVID-19, One Year Later" (June 2021), https://rpc.cfainstitute.org/research/surveys/covid19-one-year-later-report.

Exhibit 42. Measures the US Government Should Prioritize to Reduce Its Debt/GDP Ratio: Regional Differences between the EU and the United States



7. CONCLUSION

Any discussion related to the global role of the US dollar and whether it should recede over time as the world's prominent reserve currency because of the state of the US government's finances leads to a conundrum or, rather, a circular reference. On the one hand, we can assume logically that exasperating levels of debt to GDP and a worsening budget deficit facilitated by an accommodating Congress, coupled with an ever-expanding money supply in probable disconnect with actual economic needs, should (and will) eventually reduce the demand for the US dollar and, ultimately, result in a loss of its reserve currency status. On the other hand, we can also conclude that the fact the US dollar has obviously maintained its status as the world's only true global reserve currency is a de facto leadership guarantee conferred to the US government by the rest of the world. The United States can apparently continue to accumulate deficits and debt without consequences for its reserve status. Essentially, this is equivalent to Bretton Woods without Bretton Woods.

We have shown a slow and perhaps gradual diminution of the US dollar's prominence throughout this report. At the very least, it is a reexamination of the financial irresponsibility on display.

Therefore, the question is: What is the inflection point that may cause either a sustained or an abrupt demise in the global status of the US dollar? More importantly, what may be the early signals of such an inflection point?

For the time being, the US dollar has no real rivals to worry about. Ironically, this may be just the wrong signal that the US Congress needs to start taking the problem seriously. Its continuous failings to set anything other than temporary, stop-gap budgets does not inspire confidence or dispel the criticism of financial mismanagement.

Ernest Hemingway had a thing or two to say about bankruptcy. In his 1926 novel *The Sun Also Rises*, a character named Mike Campbell is questioned about how he went bankrupt. His answer was, "Two ways. Gradually, then suddenly."

As evidenced throughout our report, a falling demand for the US dollar may stem from various corners, whether geopolitical tensions, lack of trust in the US government's ability to borrow, falling demand for US Treasuries, and maybe even an actual default as Congress grapples with its debt ceiling nightmare. But at some point, something will clearly have to give way.

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The quandary can be described as follows:

- The situation of US public finances is not sustainable.
  - → However, there is no political incentive to rein in financial mismanagement.
    - → TINA lives on; there is no global rival emerging.
      - → Why should anything change?

Perhaps, one way to look at this problem is to flip it on its head and approach it from the exact opposite angle. Several respondents referred to Warren Buffett in the comment boxes left available in the survey. When asked about his ideas to reduce the deficit during an interview on CNBC's *Squawk Box* with Betty Quick in 2011, Buffett proposed to "pass a law that says that any time there's a deficit of more than 3% of GDP, all sitting members of Congress are ineligible for reelection."

We will see. In the meantime, the conclusion from our survey report points to a severe need to rein in the budget deficits and bring back the ratio of debt to GDP to historically moderate levels in order to tame any pressure building on the US dollar.

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