



HOW MUCH IS THE DOLLAR'S RESERVE CURRENCY STATUS WORTH?

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STANFORD
BUSINESS



SAFE DOLLAR DEBT IS WORLD MONEY

Taiwan exports semiconductors to the rest of the world

The U.S. exports “safe dollar debt”

- Because the dollar has been the world’s reserve currency

We compute what will happen to asset prices if the rest of the world no longer wants “safe dollar debt”?

- That is, if the dollar is no longer the world’s reserve currency

FLOW OF FUNDS Q42016: PUBLIC AND PRIVATE SAFE BONDS

Public safe dollar bonds

- Treasury and agency bonds
- 94% of GDP

Private safe dollar bonds

- Corporate bonds, bank debt (deposits)
- 111% of GDP

Foreign owns:

- 39% of total public share
- 14% of private share

About 45% of GDP worth of bonds are “exported” by the U.S.

DOLLAR BONDS HAVE VERY LOW YIELDS



On an apples-to-apples basis a high-grade firm/government/bank that places debt in dollars borrows at **1-2% lower interest cost** than the alternative



Borrowing in US dollars versus borrowing in Euros:

- Difference in borrowing costs due to differences in US vs Euro interest rates and differences in how the USD/Euro exchange rate will turn out
- Estimate based on movements in exchange rates and safe asset yields
- See Jiang Krishnamurthy Lustig (2021)

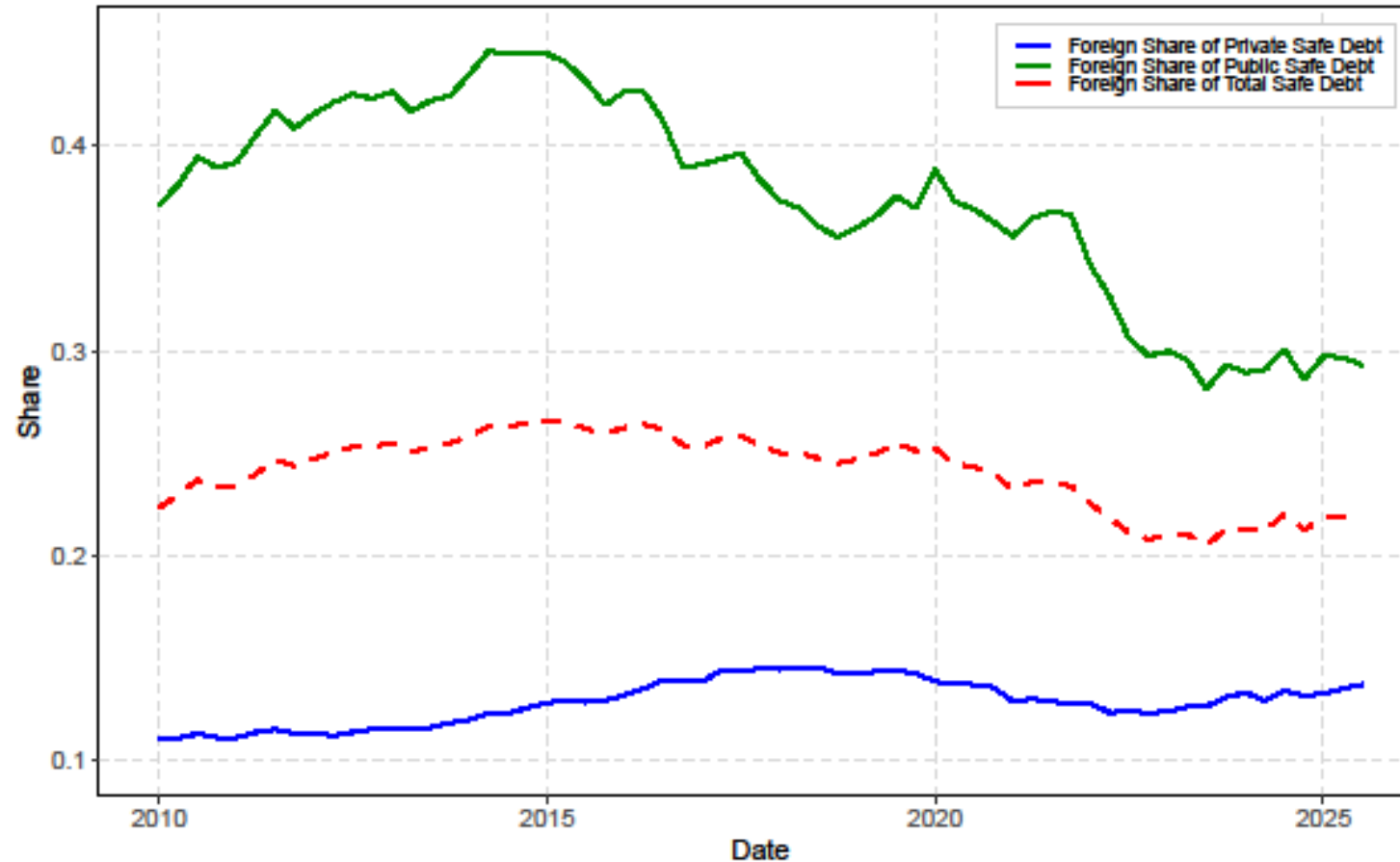
DOLLAR EROSION:

Dollar safe vs Euro safe + FX swap into dollars (“CIP safe asset basis”)

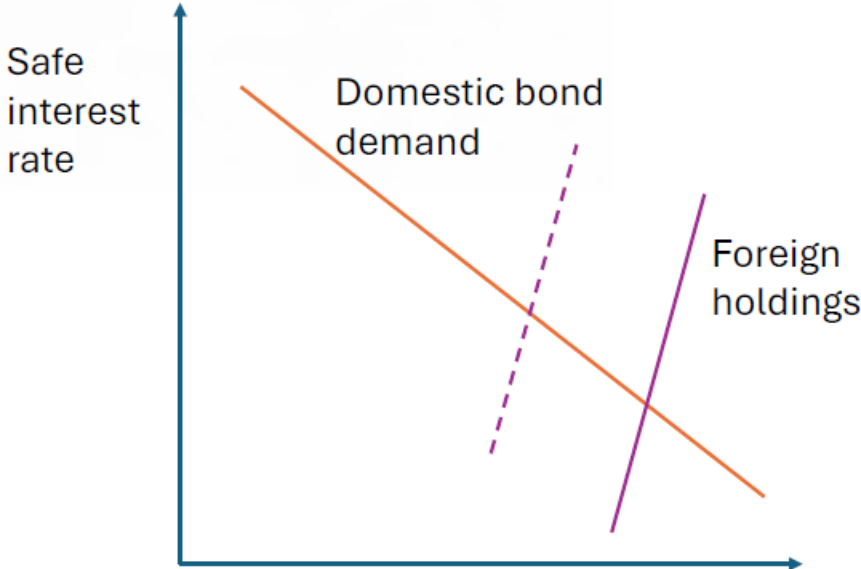
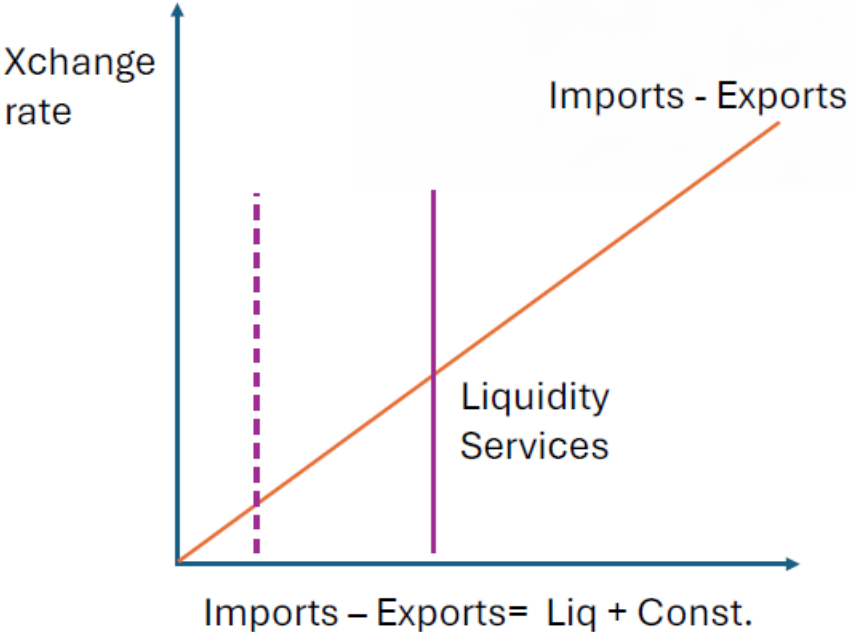
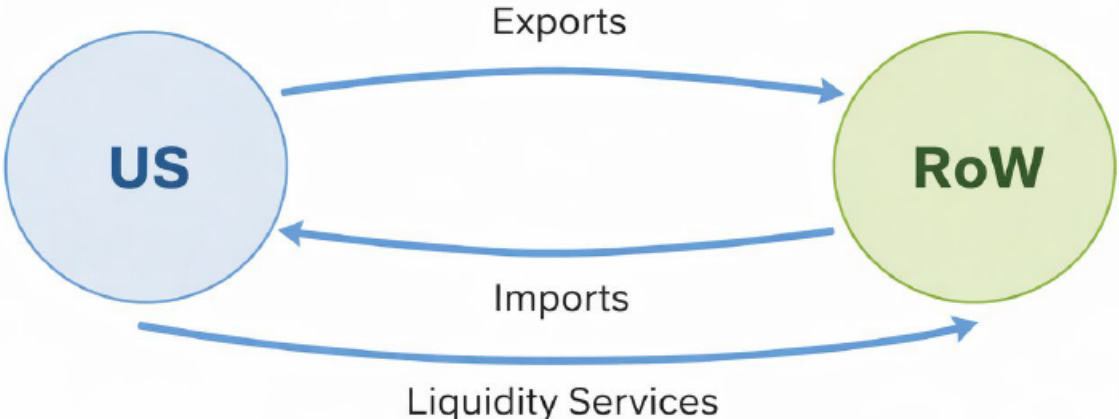


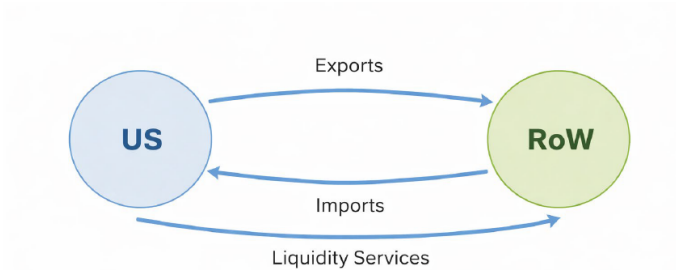
DOLLAR EROSION:

Green is foreign share of Treasury debt; Blue is foreign share of private safe debt

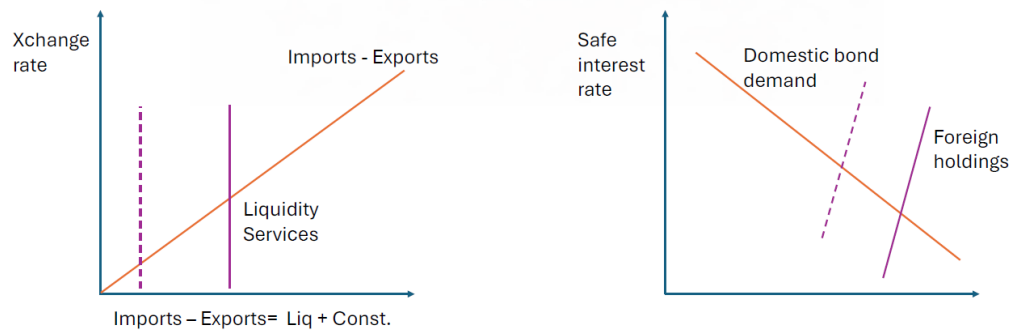


MODEL





- U.S. safe bond/GDP ratio (2016) 150%
- Share held by foreign investors 30%
- Convenience yield on dollar safe assets: 2%
- Export, import elasticities: trade literature 0.3
- Bond demand curve elasticity: Krishnamurthy-Vissing-Jorgensen (JPE 2012)



	Baseline	Convenience Loss	Difference
Debt Held Abroad / GDP (%)	45.00	0.00	-45.00
Seigniorage / GDP (%)	1.05	0.00	-1.05
Trade Balance / GDP (%)	-1.05	0.00	1.05
Import / GDP (%)	5.44	5.14	-0.30
Export / GDP (%)	4.39	5.14	0.74
Log Dollar FX (%)	8.81	0.00	-8.81
Conv Yield Public (%)	2.00	1.13	-0.87
Govt Dollar Interest Rate (%)	0.53	1.40	0.87

Note: Baseline steady state is 2016; Convenience loss is a future date where debt held abroad goes to zero.

PV OF LOST SEIGNIORAGE

45%

Seigniorage base: foreign holdings of ~45% of GDP in dollar bonds at a 2% convenience yield

1.05%

Annual seigniorage loss of 1.05% of GDP upon full erosion of reserve currency status

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$$PV = \frac{\textit{seigniorage}}{r-g} = \$33 \textit{ trillion}$$

Asset values

Asset values reflect this in franchise values of safe asset issuers (banks) and collateral asset values (housing)

Tax

Future tax burden on U.S. households falls – a direct welfare gain from lower debt service costs

SUMMARY

Exorbitant privilege has led to an appreciated dollar in world markets

But the magnitude is modest at 8.81%

Exorbitant privilege has led to lower borrowing costs across both private and public debt

About 87 basis points

Large impacts, in present value terms it is \$33 trillion



DETAILS:

“Dollar Erosion: Understanding the Loss of Reserve Currency Status”

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5737402

Jiang, Krishnamurthy, Lustig, Richmond (2026)