Article

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Is the US National Debt Leading to the End of the Global Hegemony of the US Dollar?

(Translated)

For over eight decades, the dollar has not merely been America's national currency; it has become the backbone of the global financial system. Through it, most oil and commodity trades are priced, a large proportion of central bank reserves are managed, international payments are settled, and the value of assets in global markets is measured.

This has granted the United States an exceptional privilege that no economic power in modern history has enjoyed, namely, the ability to finance its deficits and issue its debt in its national currency, amid continuous global demand for the dollar and U.S. Treasury bonds.

However, economic history teaches us that currency hegemony is not ever-lasting. The pound sterling preceded the dollar in leading the global monetary system, before gradually losing its position, as the economic and financial power of the British Empire declined. Although sterling's hegemony never reached the level that the dollar attained after World War II, the experience confirms that the strength of any currency ultimately remains tied to the strength of the economy behind it.

So far, there are no definitive indicators of an imminent collapse of the dollar, but it faces challenges unlike any it has seen since the end of World War II. The continued expansion of U.S. public debt, chronic fiscal deficits, and the rapidly rising cost of servicing that debt—all these factors have begun to push a growing number of countries to reconsider their level of reliance on the American currency.

IMF data indicates that the dollar's share of global foreign exchange reserves has fallen from over 70% at the turn of the millennium to about 57% in recent years. Although it still maintains the top position by a wide margin over all other currencies, this decline reflects a gradual shift in central bank policies toward diversifying their reserves.

In the same direction, central banks around the world have intensified their purchases of gold. Data from the World Gold Council indicates that 2022 and 2023 saw the highest official gold buying levels since modern records began, and this trend continued through 2024 and 2025.

The data shows the following:

- 2022: 1,082 tons (a historical record).

- 2023: 1,037 tons (the second highest annual level).

- 2024: About 1,045 tons, with some estimates raising the figure to 1,089 tons.

- 2025: About 1,025 tons, making it the fourth consecutive year in which official purchases have exceeded one thousand tons.

- 2026: Data from the first half showed the trend continuing, with net purchases in the first quarter reaching about 85 tons.

This demand is not driven by investment considerations alone, but also by strategic ones. Western financial sanctions, particularly the freezing of part of Russia's reserves in 2022, have prompted many countries to bolster their holdings of assets not subject to any single state's control, alongside a desire to diversify reserves and hedge against inflation and geopolitical risks. Thus, gold has returned to its traditional role as a store of value and a tool for protecting financial sovereignty.

At the same time, the BRICS group has emerged as one of the most prominent challenges to the traditional financial system. Member states have expanded the use of local currencies in their bilateral trade and are seeking to reduce reliance on the dollar in a growing number of transactions, although there are reservations about BRICS' origins. Nevertheless, the group does not yet possess a unified currency or a financial system capable of competing with the US dollar on a global level.

With all these developments, the strength of the US dollar is not based solely on the size of the US economy, but rather on an integrated system that includes the depth of US financial markets, the massive liquidity of Treasury bonds, the rule of law, the independence of monetary institutions, and global confidence in dollar-denominated assets. To this day, there is no other currency that combines all these elements together.

However, the decisive factor remains within America itself. If federal debt continues to rise at a pace exceeding the economic growth rate, and debt interest payments begin to consume an increasing portion of the federal budget, then global confidence in the dollar may face growing pressures, not because of the emergence of a superior competitor, but instead as a result of the erosion of the financial foundations upon which the dominant currency rests.

Why might the US dollar’s influence erode?

There is a set of structural factors that could accelerate this trajectory, most notably:

- The continued expansion of public debt, which has exceeded $38 trillion, alongside persistent fiscal and trade deficits, which increases America's dependence on borrowing.

- The increasing use of the dollar as a tool in geopolitical conflicts, which has prompted some countries to seek alternatives that reduce their exposure to financial sanctions.

- Declining confidence in the stability of US economic policies due to political polarization and recurring disputes over the debt ceiling and public spending.

- The expansion of using local currencies in international trade, particularly among emerging economies.

How could the dollar’s hegemony decline?

If these trends continue, the decline is likely to be gradual rather than sudden, and it may go through several stages:

- A gradual decline in the dollar’s share of global reserves and trade transactions.

- Increased reliance on gold and local currencies in settling international trade.

- Expansion of the use of the yuan, the euro, and sovereign digital currencies in some regional markets.

- The global monetary system gradually transitions to a multi-currency system, instead of near-complete reliance on the dollar.

As for the scenario of a complete collapse of the dollar, it would require a widespread loss of confidence in the US economy and its financial institutions, which current indicators do not suggest, even though the persistence of fiscal imbalances may increase its likelihood in both the short and long term.

Is there an alternative to the US dollar?

So far, there is no single alternative that possesses all the attributes enjoyed by the dollar, but the global landscape is trying to bring forward several options, most notably:

- The euro, which is the closest competitor, but it faces political and economic challenges within the European Union and could collapse before the dollar does.

- The Chinese yuan, backed by the weight of the second-largest economy in the world, yet the restrictions imposed on Chinese capital movements limit its global spread.

- Central bank digital currencies (CBDCs), which may facilitate cross-border payments away from the dollar’s dominance, but they are not secure if they are not adopted by states.

- New financial arrangements within the BRICS group, whether through expanding the use of national currencies or developing joint settlement instruments.

- Gold, which has regained its status as a strategic asset and safe haven amid escalating geopolitical risks.

The end of the dollar’s hegemony, if it happens, will not be the result of a political decision by a single state or alliance, nor will it come through the announcement of a new currency that replaces it overnight. Instead, it will be the outcome of a long trajectory during which fiscal imbalances accumulate, the risk calculations of states and investors shift, and reliance on the dollar gradually declines in favor of a more multipolar monetary system.

Moreover, the return to real assets is the only salvation from the misery, tension, collapses, and financial crises produced by capitalism, by replacing the current monetary system based on fiat currencies, such as the US dollar, and returning to the bimetallic gold and silver standard, as they represent the solution to these problems, through:

Curbing monetary inflation and irresponsible spending: Gold and silver cannot be printed, which limits the ability of states to create money without controls, and thus curbs runaway monetary inflation and excessive government spending.

Long-term financial stability: Pegging the currency to a precious metal prevents sharp fluctuations and grants the financial system greater stability.

Justice and transparency: The bimetallic system ensures the independence of money from political decisions.

However, no one will be able to impose a return to the bimetallic system except a strong state that possesses its own political decision-making, and the metallic system must be tied to its principles. There is no ideology other than Islam that mandates the use of the bimetallic system, or a representative currency whose basis is fully backed 100% by gold, silver, or both. Therefore, we find that the Islamic economic system is far removed from the crises, collapses, disarray, and instability created by the capitalist system.

O people of Islam, the correct and radical solutions for this world exist in your ideology, but they must be applied on the ground, and no one will be able to implement them except the Khilafah (Caliphate) state. Therefore, it is incumbent upon every adult Muslim who is aware of his or her Ummah's fate and aware of what Allah (swt) has obligated upon him or her, to advance with Hizb ut Tahrir to resume the Islamic way of life and implement the Shariah into practice, so that the Rayah banner of Islam may be raised, and we return as the best Ummah brought forth for all of humanity. For if we do not change what is within ourselves and take action, Allah (swt) will not change our reality. Allah (swt) says, ﴿إِنَّ اللَّهَ لَا يُغَيِّرُ مَا بِقَوْمٍ حَتَّىٰ يُغَيِّرُوا مَا بِأَنْفُسِهِمْ﴾ **“Indeed, Allah would never change the situation of a people, until they change what is within themselves.”** [TMQ Surah Ar-Ra’d: 11].

Written for the Central Media Office of Hizb ut Tahrir by

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