Andrew Bailey: The meaning of reserve currency

Panel remarks by Mr Andrew Bailey, Governor of the Bank of England, at the Andrew Crockett Memorial Lecture, on the occasion of the Bank for International Settlement's Annual General Meeting, Basel, 29 June 2025.

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It is a great pleasure to have the opportunity to make some remarks this afternoon. This is not just to be able to follow a fascinating and timely lecture, but also because I worked for Andrew Crockett at the Bank of England nearly 40 years ago. Andrew was inspiring to work for, one of the deepest thinkers about international economic policy and central banking. He also had a quite incautious side too. He was a practitioner of one of his favourite phrases – "if you have never missed a plane, you obviously arrive at airports too early". Andrew was also the creator of the Financial Stability Forum, and its first chair.

I want to spend my time developing a theme that has run though Maury's lecture, namely what has been the meaning of the term reserve currency, and what does it mean today. My conclusion is that it is best to think of the term as one that has evolved with the times, and continues to do so. Thinking of it as a constant term does not help to understand its meaning.

I will start with the nineteenth century meaning of the term. The monetary regime was the classical gold standard, and convertibility of domestic currency into gold at a fixed price was the nominal anchor of the system. The term reserve therefore referred to the gold reserves that were held to enable convertibility and the promise thereof.

The nineteenth century Bank of England spent time managing that reserve balance to create confidence in the promise of convertibility. Today, our banknotes still carry the words "I promise to pay the bearer on demand, the sum of". Nowadays, it means that someone can have another banknote, but under the gold standard it meant much more. This system did not put as much emphasis on financial stability, with the consequence that when crises occurred (as they did in that time), they were managed with a certain degree of adhocery. Hence, Walter Bagehot wrote his famous critique of the Bank.

There was rather more to the concept of reserve currency in this period. Sterling was the premier currency of international trade, built on trade with the British Empire, but extending further over time to the countries of the so-called Sterling Area. It is one of the questions in central bank Trivial Pursuit to name countries in the Sterling Area.

The collapse of this system between the wars led to the Bretton Woods system coming into existence and its heyday once full convertibility was restored. This system had the joint dollar-gold anchor in the form of a fixed dollar-gold rate and pegging of the major currencies. The consequence was a substantial growth of official dollar reserves, and the further emergence thus of the dollar as the reserve currency.

The system therefore had a joint anchor. Because Bretton Woods solved the so-called Trilemma by restricting capital flows, the threat of countries exhausting reserves was limited, but not sufficiently so to prevent difficult devaluations at times. Moreover, I tend to think of the Triffin Dilemma as posing the question – what if the bluff of the dollar-gold tie had been called, and what would be the consequence?

From the early 1970s that system broke down. Countries moved to free float, with periodic attempts at management, and a lifting of restrictions on capital controls. Alongside this was the emergence of the domestic anchor of monetary policy, usually an inflation target. The dollar had become the predominant currency of international trade and payments.

The role and nature of reserves had changed. No longer were they a nineteenth century description of the central bank's balance sheet and its liquidity under the classical gold standard. Rather, they became a description of so-called official reserves typically, but not always, held by governments, though often managed by central banks. Their role was different, reflecting the changes to the solution of the Trilemma. As foreign exchange intervention to influence exchange rates came to an end, the role of reserves in many countries was to act as a bulwark against pressures from capital flows, as seen in the Asian crisis of the late 1990s.

A few numbers help here. The stock of FX reserves relative to global GDP increased from 3% to 11% between 1976 and last year.

During that period, foreign currency reserves as a proportion of global reserve assets including gold increased from 50% to 90%, while the dollar's share of foreign currency reserves declined from 80% to 57%. I take four points from these figures: the total stock of FX reserves has increased; the share of gold fell; the dollar's share fell as it moved from being the anchor currency to the largest currency; and the evidence further supports the view that the meaning of the term reserve currency has changed over time.

Today, with domestic monetary anchors, financial stability has become the focus of international co-ordination, the opposite of the gold standard arrangements. The meaning of reserve currency has changed again as a consequence. I would point to two important features of today's system.

First, the concept of reserve currency has a lot more to do with the supply and denomination of safe assets which act as security in the financial system, and are increasingly at the heart of it. This version of the concept of reserve currency has as much to do with the role of US Treasuries as a safe asset, that is present not just in official reserves but also to provide security and collateral in financial markets.

Second, these arrangements are backed up by the provision of contingent liquidity insurance in the form of central bank swaps and a repo facility. These arrangements underpin the role and primacy of the reserve currency.

I will end with two points which strike me as unfinished or emerging. First, at least for the large economies, it could be asked today, what is the point of official reserves? My view is that today their use is more to do with preserving financial stability in the event of stress. They may be needed to support financial system liquidity in situations of extreme stress.

My second point, as BIS colleagues have emphasised, is that we need to watch carefully the evolution of payments forms and whether innovation here introduces fragility into what I would call the "money system".

If, for instance, stablecoins emerge as a new form of money, we have to decide how to ensure the singleness of money and therefore trust in money in this world, and what role the notion of reserve currency should play here.

To finish, thank you Maury for such a stimulating lecture. You pushed me to think further about the meaning of reserve currency. The conclusion I draw was that we need to emphasise more its adaptable nature, but thereby be very clear what it means in the world of today and tomorrow.

Thank you.