Mises Wire

# Dedollarization? It's More Like "De-fiatization"

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Despite the consensus narrative, what we are currently experiencing globally is not "de-dollarization," but a broad loss of confidence in developed economies' fiat currencies and sovereign debt as a reserve asset for central banks and institutions. This fundamental loss of confidence in the solvency of developed economies' sovereign issuers is boosting demand for gold. However, the latest data shows no crossover or fiat alternative substitution. The US dollar's central role in the fiat system remains intact.

**Gold over Debt: the Key Shift**

MMT supporters state that monetary sovereign nations can issue all the debt they want without inflationary and confidence risk. However, monetary sovereignty is not a given; it is not perennial and governments face three limitations when it comes to issuing debt. Domestic and global confidence in sovereign issuers begins to decline once they surpass those limits.

The three limits for governments are: the economic limit, when more government debt leads to stagnation and productivity growth decline; the fiscal limit, when interest expenses and debt burdens soar despite central bank easing and rising tax receipts; and the inflationary limit, when the loss of the purchasing power of currencies becomes large and persistent, eroding citizens' standards of living.

Over the last few years, the most important trend in global reserves has been the rotation from government bonds of advanced economies toward gold, not "out of dollars," as some media highlights, and even less so into other fiat currencies.

Many analysts blame the recent sanctions against Russia as a factor that has triggered the move to other forms of reserve. However, this does not seem like a plausible cause when most of the gold reserves that have been added globally are stored in countries that enforce those sanctions. The evidence is more complex and different: Central banks globally stopped trusting in developed nations' debt as their core asset in 2021 when inflationism and lack of fiscal responsibility started generating losses at major central banks. Sovereign debt stopped being the quality, stable, and income-generating asset that provided real economic returns to institutions all over the world.

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buying comes on top of strong private-sector investment demand, turning gold into the main beneficiary of rising concerns about debt sustainability and currency debasement in the US, Europe, Japan, and the UK. At the same time, analysts at JP Morgan highlight that much of this official gold buying is opaque, with significant "unreported" flows via hubs such as Switzerland, which reinforces the idea of a stealth shift into a real asset outside the fiat system.

The real underlying driver is the deterioration in the fiscal and monetary credibility of developed economies. Government debt is close to peacetime record levels, while long-term spending commitments, unfinanced liabilities, weak growth, and aging populations make future fiscal consolidation politically challenging. Since the pandemic, major central banks have combined ultra-loose policy, large balance sheets, and implicit financial repression to maintain the illusion of solvency of sovereign issuers, which has strengthened the view that fiat currencies will be used to manage debt through inflation and negative real rates for a long time. The freezing of Russian reserves in 2022 and the weaponization of sanctions only served as a confirmation of the debasement risk and convinced many emerging-market central banks that holding large stocks of G7 sovereign debt and deposits entails growing political and legal risk. Faced with a mix of fiscal excess, financial repression, and geopolitical risk, reserve managers have finally returned to the strategy of adding reserves in an asset with no counterparty risk. The famous "gold is money, everything else is debt" sentence becomes more relevant than ever.

**There Is No Good Fiat Alternative to the Dollar**

The same sources that show soaring gold demand also show that there is no true "dedollarization" in the sense of a fiat-to-fiat substitution. This also makes sense. The US dollar is the world's strongest weak currency because it has a higher level of liquidity, more independent institutions, and better legal and investor security than any alternative. The US dollar is losing its place as a global reserve to gold but not losing its position relative to the euro, yen, pound, or yuan.

IMF COFER figures show that the US dollar's share of allocated FX reserves remains at 59.6%, and when adjusted for exchange-rate moves, the IMF itself concludes that the dollar's share has been broadly stable, with recent declines explained mostly by valuation effects, not active selling. The euro, at 20.3%, is not even close to being a contender. The euro, yen, sterling, and even the Chinese renminbi have not captured the supposed "lost" dollar share. Their combined importance in reserves is flat or declining, while the rising share belongs to gold and "other assets," including silver, oil, or domestic equities in the case of Japan.

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replaces the dollar's role in trade, finance, or reserves. The real story is that all major fiat currencies are losing relative trust to an asset outside the system, like gold.

Institutions all over the world have suffered losses with sovereign debt since 2021 and see no end to the inflationary currency debasement policy, while solvency is under question as governments reject any form of spending control.

Calling this "de-dollarization" is misleading, because it suggests a transition from a dollar-centric order to a euro-, yuan- or BRICS-centric fiat order, something the data clearly do not show. What is actually happening is better described as "de-fiatization at the margin," a shift away from all heavily indebted, policy-managed fiat currencies towards real assets that do not depend on governments. The dollar remains the least-imperfect fiat currency, with unmatched liquidity, legal and investor security, and support in trade and finance, so there is no scalable alternative that reserve managers can move into without assuming even greater risk. That is why central banks diversify some of the marginal flow into gold but keep the bulk of their liquid reserves, payment systems, and FX operations in US dollars.

The world is penalizing the fiscal and monetary excesses of developed economies by demanding less of their debt and more gold, not by building a new fiat-currency alternative. The record highs of gold and the constant purchases by central banks indicate a lack of confidence in the long-term purchasing power and credit quality of sovereign issuers, not in a competing fiat currency. Meanwhile, the dollar's share in reserves, trade invoicing, FX turnover, and payments remains dominant and broadly stable, with no evidence of a large-scale substitution into euros, renminbi, or any other fiat unit.

The global system is therefore not moving from "dollar hegemony" to "yuan hegemony" or a multipolar fiat regime; it is moving from unchallenged trust in developed-market paper to a world where gold re-emerges as the ultimate reserve asset, and the dollar stays at the declining fiat center because nothing else can replace its security, infrastructure, and depth.

While investors legitimately worry about America's credit credibility and the US dollar's purchasing power, no one is naive enough to consider the euro area, Japan, China, or a basket of serial devaluators like the BRICS as viable alternatives to the US dollar.

The solution is to go back to sound money policies. However, no fiat currency issuer seems to want that shift. No government desires a strong currency because it undermines their illusion of paper promises.



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