# South African Reserve Bank Occasional Bulletin of Economic Notes

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South African Reserve Bank

# SARB Occasional Bulletin of Economic Notes
September 2026

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# De-dollarisation and emerging markets: more policy space or less?

*Chris Loewald and Manisha Morar*


## Abstract

As the global order fragments, a key question arises: can de-dollarisation – that is, the gradual reduction of reliance on the US dollar in trade, finance and reserves – help restore policy autonomy in emerging markets (EMs), or will it constrain them further? This note reviews the evolution of EMs' integration with the global financial system, analyses the impact of geoeconomic fragmentation on capital flows, and assesses the role of the US dollar in EM policy choices. On balance, integration is supportive of both growth and macroeconomic policy space, despite cyclical pressures and widespread dollarisation of borrowing. In South Africa's case, the constraint posed by financial integration lies primarily in the weak comparative efficiency in using capital to finance increases in potential growth. De-dollarisation will neither resolve macroeconomic instability nor increase policy sovereignty.


## 1. Introduction

While the global economy proved resilient to the massive shock of the COVID-19 pandemic, deep faults lie beneath the surface, and political and economic tremors are now more or less continuous. The tectonic plates of the postwar global order continue to shift, pushed by demographics, state fragilities and renewed great-power rivalry, making volatility a near-constant feature of the international landscape.

As the global order adjusts, a key question arises: can de-dollarisation – that is, the gradual reduction of reliance on the United States (US) dollar in trade, finance and reserves – increase policy autonomy in emerging markets (EMs), or will it constrain them further?

In this note, we review the evolution of EMs' financial integration, analyse the impact of geoeconomic fragmentation on capital flows, assess the structural centrality of the dollar compared with other currencies and systems, and finally turn to domestic considerations. Overall, the analysis highlights the complex trade-offs involved – de-dollarisation will neither resolve macroeconomic instability nor allow for a straightforward route to policy sovereignty.

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## 2. How EMs got here: integration, dollar dependence and vulnerabilities

The deepening of EM dependence on the dollar occurred in the era of rapid financial and trade integration that began in the 1990s. As global capital account restrictions were dismantled and markets liberalised, cross-border assets and liabilities expanded at an unprecedented pace. The theoretical logic was compelling: in an integrated world, capital would flow from capital-abundant economies – where returns were low – to capital-scarce EMs – where returns were high. This ‘allocative efficiency’ was expected to narrow global income gaps and finance rapid development.[1]

In practice, the surge in integration was driven by both external ‘push’ factors and domestic ‘pull’ factors. Externally, large global savings pools and rapid financial innovation (including decreasing information asymmetries) channelled liquidity towards higher-yielding EM assets. Domestically, many EMs implemented wide-ranging reforms to attract and retain foreign capital. This included trade liberalisation, the privatisation of state enterprises, fiscal consolidation and the opening of domestic bond and equity markets to non-resident investors. Such efforts were often underpinned by a strategic shift in macroeconomic thinking, from inward-looking demand management to frameworks that emphasise external balance, market discipline and institutional credibility.

Yet EM financial integration remains limited relative to advanced economies (AEs). External assets and liabilities across 14 large EMs have rarely exceeded 20% of world gross domestic product (GDP) (Figure 1). The pattern of integration reflects the degree of participation in global value chains, the depth of local capital markets and lingering regulatory constraints. Those EMs which paired macroeconomic stabilisation with structural and microeconomic reforms (such as deregulation of product and labour markets, infrastructure investment and export diversification) achieved deeper integration and higher growth (Prasad et al. 2009).[2] Concurrently, an area where EMs have outperformed in recent years has been trade (Figure 2), albeit with China accounting for most of the gains.

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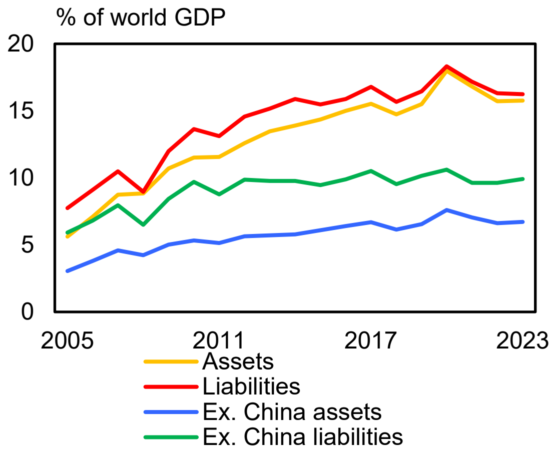
1 See, for instance, BIS (2021).

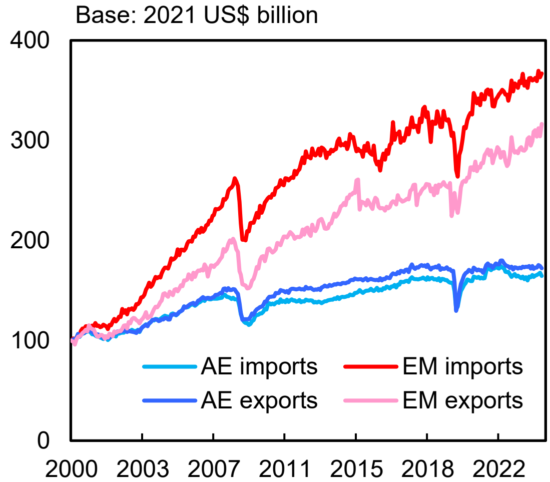
2 Examples include previously centrally planned Central and Eastern European economies (e.g. Poland, Czech Republic and Estonia), East Asian reformers (Vietnam, China post-World Trade Organization and Malaysia), and selected Latin American cases such as Chile and Colombia.

**Figure 1: EM external financial assets and liabilities**




Source: IMF, World Bank and SARB.
Calculated for a sample of 13 EM economies.

**Figure 2: Trade volumes**




Source: CPB Netherlands.

South Africa's reintegration into global markets after the end of apartheid coincided with the 1990s wave of financial globalisation. The country's large investment-savings gap made access to foreign capital essential, while strong domestic institutions and a sophisticated financial system helped attract portfolio inflows (Khetsi and Mongale 2015). But the failure to sustain reform momentum has resulted in 'incomplete integration', that is, openness to volatile financial flows without the productivity and competitiveness gains that anchor long-term resilience (Faulkner, Loewald and Makrelov 2020). These dynamics define the starting point for understanding the constraints and trade-offs of de-dollarisation.

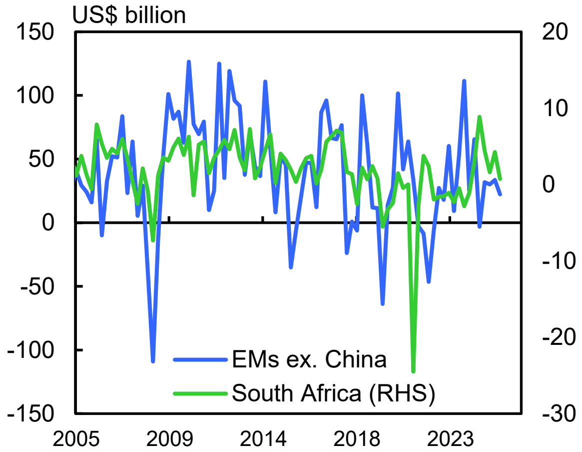
## 3. Fragmentation and capital re-alignment

Today's tensions play out in a world that is more financially interwoven than before, implying that the potential economic consequences of fragmentation are both broader and deeper (Solomons, Mjandana and Mercier 2024). Increasing geopolitical 'distance' appears to be reshaping global capital flows. Divergence in United Nations General Assembly voting patterns – a proxy for political alignment – significantly reduces bilateral portfolio investment, while cross-border bank lending and investment exhibit regional biases (Aiyar et al. 2023). This introduces a new, non-market risk premium where investors increasingly price political compatibility alongside conventional indicators such as debt sustainability or inflation performance.

The potential for politically driven risk premiums would mark a significant change from recent conditions of asset-class-defined risk. Historically, portfolio flows to South Africa (both equity and bond) have tended to move in step with those to other EMs. Since 2005, total non-resident portfolio flows to South Africa showed a 67% correlation with flows to EMs excluding China, with bond flows displaying an even closer alignment.[3] Close co-movement underscored how South Africa was long influenced by the broader cycle in global capital flows. While this pattern held until the COVID-19 pandemic, the correlation weakened into 2025, suggesting that domestic factors weighed, and were further reflected by a consistent risk premium over other EMs (Figure 4).

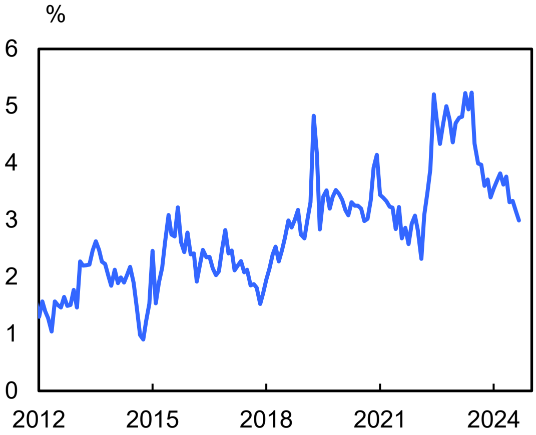
[3] Based on calculations using data from the Institute of International Finance (IIF).

**Figure 3: Non-resident portfolio investment**




Source: IIF and SARB.

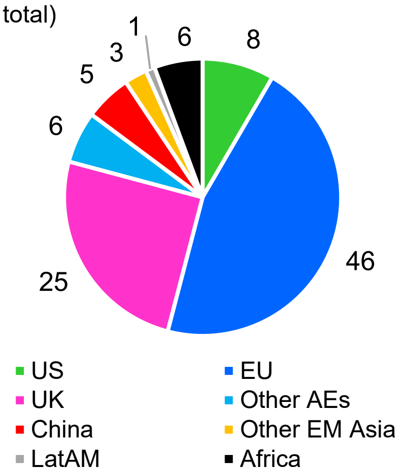
**Figure 4: 10-year spead ━ South Africa less EM median**




Source: Bloomberg and SARB. The median yield uses a sample of 12 medium to large EMs.

**Figure 5: Split of foreign direct investment liabilities**

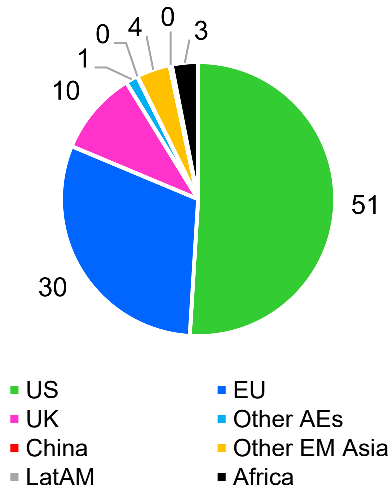
(% of total)




Source: SARB, as of December 2024.

**Figure 6: Split of portfolio liabilities**

(% of total)




Source: SARB, as of December 2024.

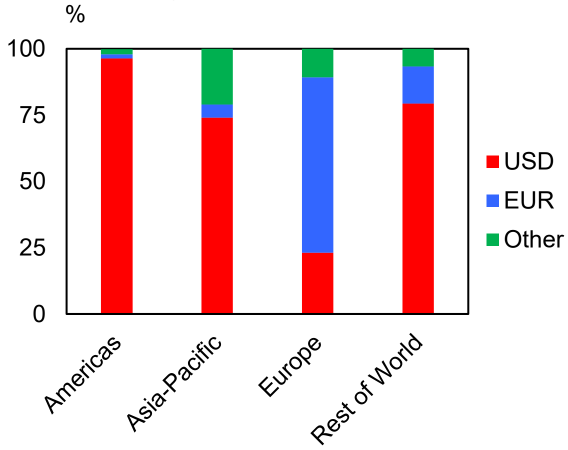
A shift in global flow dynamics would affect the evolution of EM external balance sheets and net international investment positions (NIIP) – which reflects the cumulative effect of sustained inflows, outflows and valuation shifts. While South Africa has maintained a positive NIIP since 2015, its external liabilities are heavily concentrated in investors from the US and Western Europe (Figures 5 and 6). This implies that, in the event of financial fragmentation, dollar-based investors could scale back their allocations, posing financial stability risks and exerting upward pressure on the country's risk premium.

## 4. Peak dollar?

The role of the dollar has attracted renewed attention in the post-pandemic era, driven not only by the intensification of US sanctions on Russia, but also by China's gradual internationalisation of the renminbi and by a broader move towards multipolar financial arrangements. The propensity of the US to run current account deficits on a continuous basis, irrespective of GDP growth cycles, generates sustainability concerns for debt. These dynamics prompt unease over the dollar's dual role as a global public good and a potential source of systemic risk through policy and geopolitical channels – and, with a sharp increase in potential tariffs on US imports, led to significant US dollar depreciation in 2025.

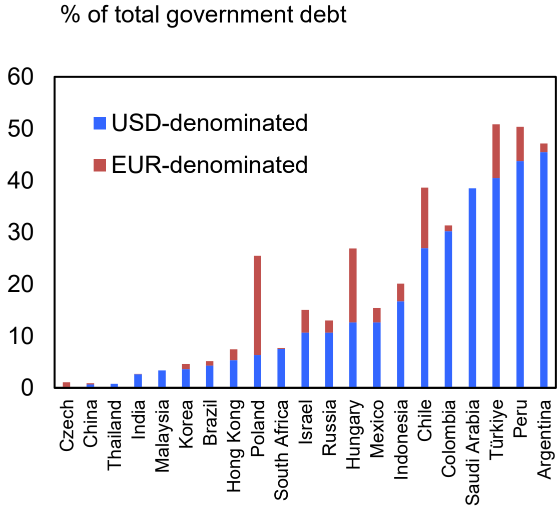
Even as the dollar cyclically weakened in 2025, EMs remain structurally exposed to it.[4] Most external borrowing remains denominated in dollars, alongside the majority of international trade (Figure 7), regardless of exchange-rate regimes (Boz et al. 2020; Obstfeld and Zhou 2023). This 'dollar trap' can limit the policy autonomy that flexible exchange rates provide by increasing marginal debt costs and existing debt service burdens.

**Figure 7: Share of global export invoicing**




Source: FEDS Notes, July 2025.

**Figure 8: EM external debt issuance**




Source: IIF and SARB.

South Africa's foreign currency debt forms only a small share of total public borrowing, especially when compared with peers (Figure 8). Reliance on local currency funding has helped contain external vulnerabilities and currency-mismatch risks. Relatedly, the share of dollar deposits in the domestic banking system is limited, unlike EMs such as Türkiye and Argentina.[5] This also reduces downside risks to the rand as the likelihood that residents would aggressively swap domestic currency deposits for foreign-denominated ones is low. Rather, periods of non-resident capital outflows generally coincide with repatriation of offshore assets

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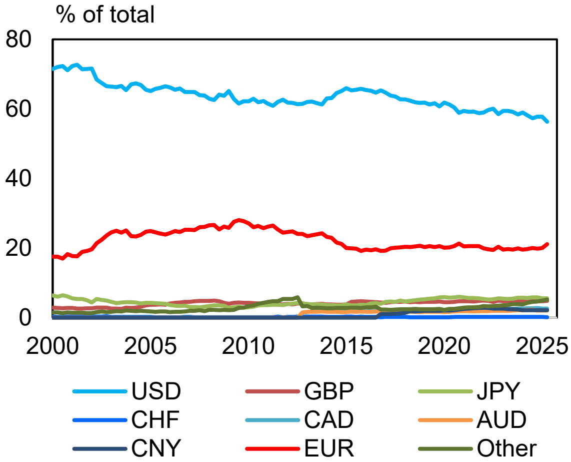
4 For South Africa, the 2025 episode has produced both benefits and asymmetries. The rand appreciated by around 13%, reflecting and reinforcing improved investor sentiment while easing imported inflation pressures. But the rally may also reflect temporary external dynamics rather than structural strength. Because a large share of South Africa's external financing is via portfolio inflows rather than stable foreign direct investment, shifts in investor appetite tend to transmit rapidly through the exchange rate and domestic asset prices.

5 Here, the use of foreign exchange savings accounts is high as holders compensate for low or negative real interest rates and a loss of domestic purchasing power.

by residents, in part because prudential limits on offshore investments are exceeded when the rand depreciates.[6]

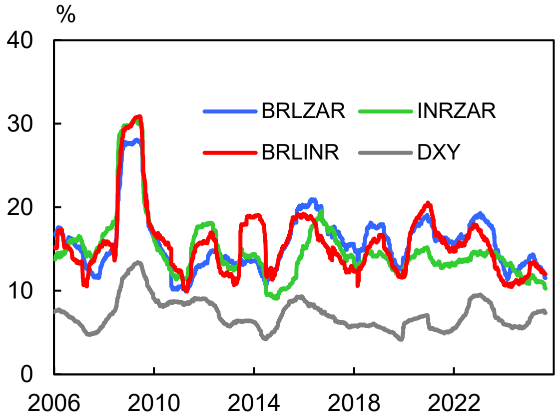
The dollar also still plays a central role in reserve holdings. At the official sector level, its share of global foreign exchange reserves has declined from over 70% in the early 2000s to about 57% by end-2025 (Figure 9). However, this has not been solely the result of declining demand for dollar assets. Changes in the size of individual countries' reserve portfolios – especially when those countries hold more or fewer dollars than average – can mechanically shift the overall global dollar share, even without a change in preferences (Goldberg and Hannaoui 2024). Aside from geopolitical factors, proximity to the euro area in trade and debt continues to tilt some portfolios away from dollars (for example, Switzerland). Reserve managers have also added a wider range of smaller currencies to their portfolios as liquidity and depth in some of these markets improved, initially against a backdrop of low yield pick-up in many AEs. Given South Africa's relatively modest reserve holdings of about US$75 billion, any shift away from the dollar would be precautionary rather than a move of systemic global importance.

**Figure 9: Currency composition of official foreign exchange reserves**




Source: IMF COFER.

**Figure 10: Volatility for selected exchange rates**




Source: SARB and Bloomberg.
Volatility is monthly annualised.

Whether driven by a weakening perception of the dollar as the dominant safe asset or by geopolitical developments, the direction of travel is slowly towards portfolio diversification and less dollar concentration. This raises the prospect of a future international monetary system less centred on the dollar, a possibility mooted by some BRICS countries. Advocates for a common currency posit that it would reduce exposure to exchange-rate volatility and facilitate intra-bloc trade. Yet the practical obstacles are significant. Member states collectively fail nearly every test of an optimal currency area, and currency volatility of BRICS pairs is generally higher than that of the dollar (Figure 10).[7] Establishing a supranational central bank requires agreement on governance structures, fiscal backstops and crisis-management frameworks, and these challenges remain unresolved even in the euro area despite its long history of institutional integration (Loewald and Wörgötter 2019).

6 See, for instance, Goel and Miyajima (2021).

7 Labour and capital mobility are limited, business cycles are poorly synchronised and fiscal coordination mechanisms are absent (Mundell 1963).

Within the BRICS group, China has made the greatest strides towards renminbi internationalisation. Supported by a network of clearing banks, bilateral swap lines and the Cross-Border Interbank Payment System, the renminbi's global use has expanded gradually. Russia's post-sanctions pivot accelerated renminbi invoicing for trade in energy and commodities, and its share of global reserves and payments has edged higher. Even so, progress has been slow. China's capital controls and limited financial transparency restrict foreign investor participation, meaning that the renminbi's reach remains regionally concentrated and policy-driven, rather than organically market-led.

Indeed, a shift towards more regional rather than dollar-centric circulation of capital may increase the volatility of EM financial assets. Although fragmentation could modestly weaken the transmission of US financial conditions, regional investor bases are typically smaller, more pro-cyclical and more exposed to correlated shocks (IMF 2023; Broner et al. 2013). As a result, fragmentation does not meaningfully expand policy autonomy; instead, it raises the need for stronger buffers, deeper local capital markets and credible macroeconomic anchors. It also complicates external financing. Limited access to deep, dollar-funded markets raises risk premiums and elevates rollover risks, particularly in regions such as Africa and Latin America that lack sufficient domestic savings to substitute for the global capital that fragmentation may make harder to access (UNCTAD 2024).

As Ilzetzki, Reinhart and Rogoff (2020) note, attempts to rival the Bretton Woods system typically falter because newer institutions lack the liquidity, legal depth and investor participation that anchor confidence in the International Monetary Fund and the US Federal Reserve. The New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) provide supplementary support mechanisms for BRICS members at this stage.[8] Ultimately, the power of the dollar rests not just on inertia but on network effects that cannot be replicated quickly without matching the institutional depth and scale embedded in US markets.[9]

A further, potentially underappreciated, source of support for the dollar system comes from the growing expansion of dollar-backed stablecoins. These instruments function as 'digital eurodollars', that is, they facilitate cross-border payments, store value in dollar terms and allow residents in many EMs to bypass domestic financial frictions. As such, their use could reinforce global demand for dollar-denominated assets such as Treasuries, despite lacking the institutional safeguards that underpin traditional bank-based dollar claims (Miran 2025; Aldasoro et al. 2025).

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8 The NDB and CRA form the backbone of BRICS' financial architecture. Established in 2015, the NDB was envisioned as a development-finance alternative to the World Bank, with a focus on infrastructure and sustainability. While it has expanded its portfolio to include private projects and some non-member borrowers, its operational scale remains modest. The CRA, also launched in 2015, was designed as a shared liquidity safety net to help members manage balance-of-payments shocks. In practice, it has not been activated.

9 Even at the onset of the COVID-19 pandemic, investors quickly turned risk-averse and moved to strengthen their cash positions. Market dysfunction deepened as leveraged non-bank investors and foreign holders sold US Treasuries, yet the scramble for dollar liquidity far exceeded available supply and highlighted the global financial system's reliance on the dollar during periods of acute stress. See Financial Stability Board (2020).

## 5. Conclusion

De-dollarisation is neither linear nor a guaranteed path to greater macroeconomic autonomy. The tectonic plates of the global economic order may be shifting, but the structural foundations of the dollar system – deep markets, institutional strength and powerful network effects – remain in place. A gradual move towards a more multipolar system may broaden financial inclusion, yet meaningful alternatives to the dollar require institutional depth that most EMs have not yet achieved. Reducing foreign exchange mismatches and balance-sheet vulnerabilities is prudent; however, the gains from lowering dollar usage are often overstated relative to the central importance of sound domestic fundamentals. In a more fragmented world, where capital flows respond as much to political alignment as to macroeconomic performance, the coherence of the domestic policy mix becomes even more critical, in large part because of the potential shrinkage of the pool of capital available to borrowers. While some diversification away from the dollar will continue, these shifts are likely to be gradual.

For South Africa, the implications of de-dollarisation hinge more on domestic policy credibility than on changes in the global currency order. Recent evidence shows that past surges in capital inflows were not always channelled towards productive ends: non-resident bond inflows in the 2010s helped finance higher current expenditure rather than investment (Amaral, Knox and Mercier 2024), while fiscal multiplier studies indicate that rising public debt now yields diminishing growth returns (Faulkner, Loewald and Makrelov 2020; Janse van Rensburg, de Jager and Makrelov 2021). These findings underscore a central lesson: greater financial integration enhances macroeconomic autonomy only when paired with disciplined fiscal frameworks, a supportive investment climate and a credible macroeconomic policy mix. South Africa's constraint is therefore not the currency in which its liabilities are denominated, but the effectiveness of its domestic institutions in converting capital – foreign or domestic – into lasting improvements in productivity and potential growth.

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