

What is Dedollarization?

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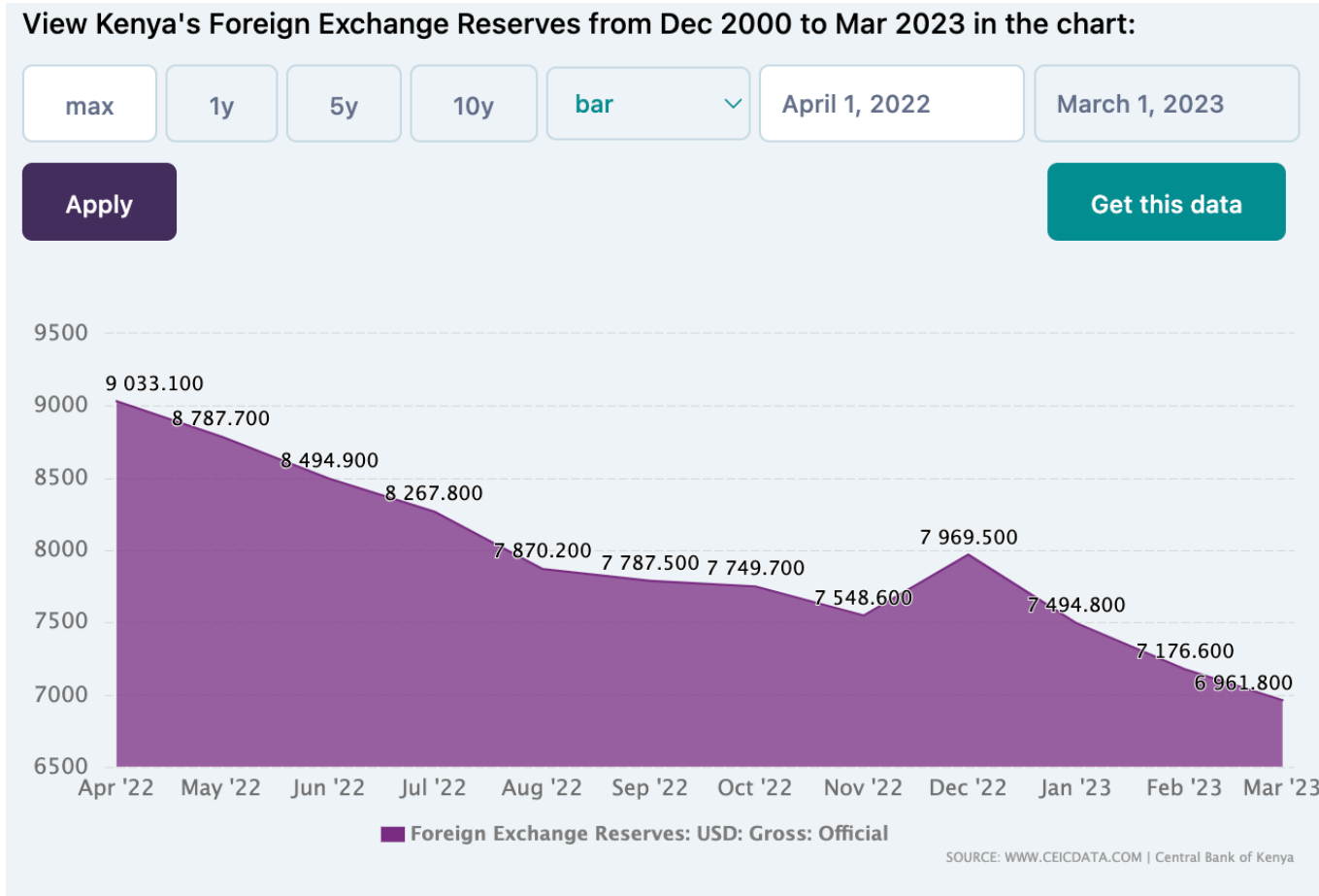
State of Play

- The number of forex bureaus in Kenya grew from 68 in 2021 to 119 by March 7th, 2023
- CBK rate (KEN/USD) 127.80 while market rate is 139
- JPMorgan, Kenya Association of Manufacturers among organizations to complain about scarcity of dollars affecting transaction settlements, meeting obligations to overseas suppliers

Trajectory of US Dollar-KES Value



Trajectory of Foreign Exchange Reserves

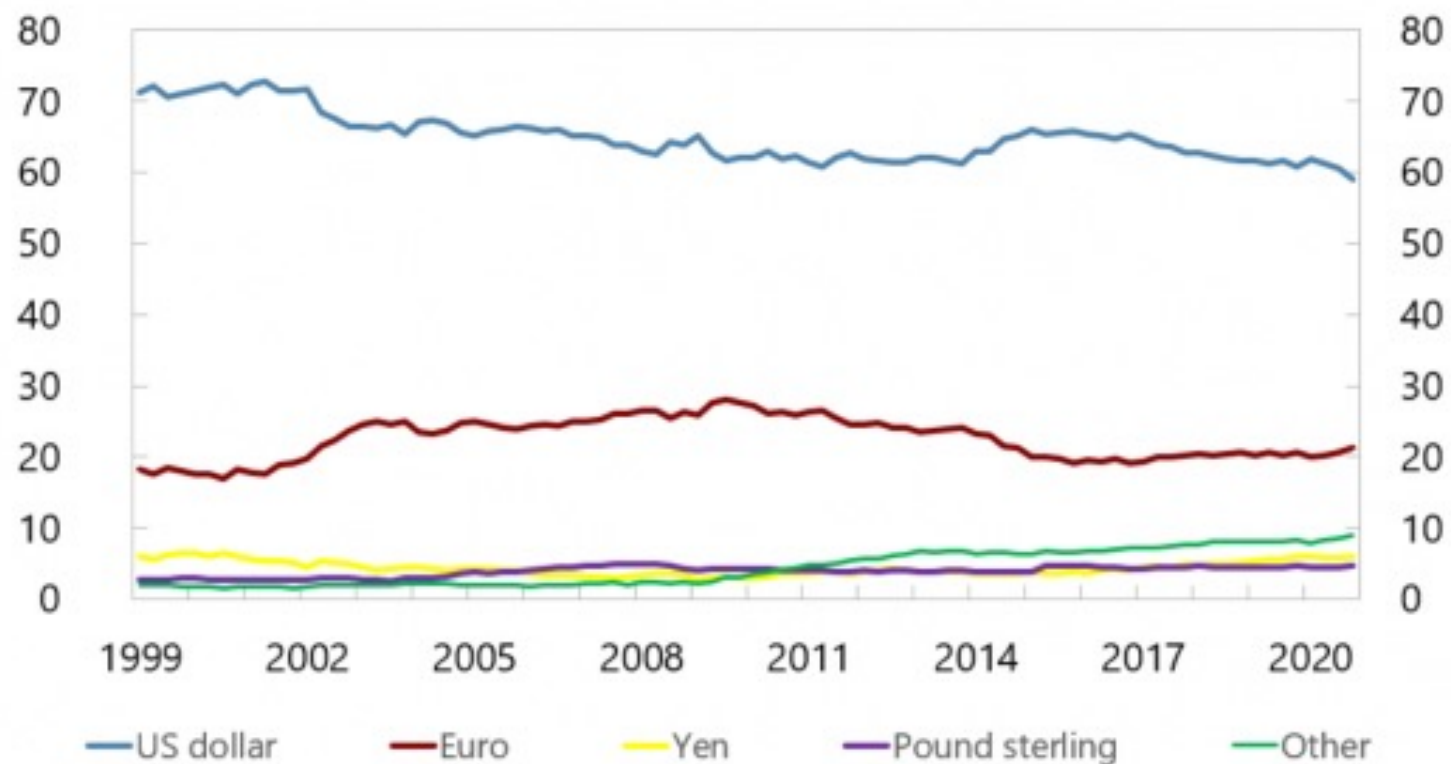


Source: CEICDATA

Demand for dollars by central banks

The US dollar's share in global foreign exchange reserves fell to its lowest level in 25 years in the fourth quarter of 2020, driven by exchange rates in the short term and central bank actions in the long term.

(currency composition of global foreign exchange reserves, percent)

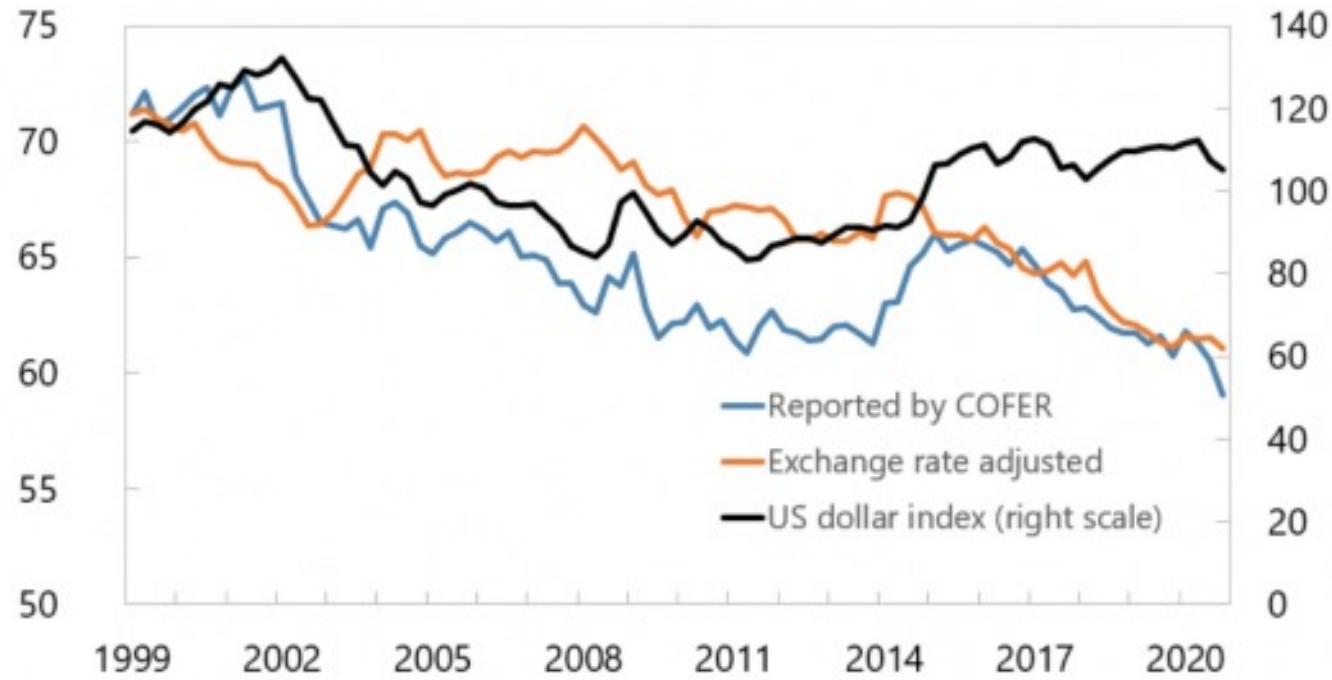


(US dollar share of foreign exchange reserves, percent)

(US dollar index, January 2006 = 100)

(US dollar share of foreign exchange reserves, percent)

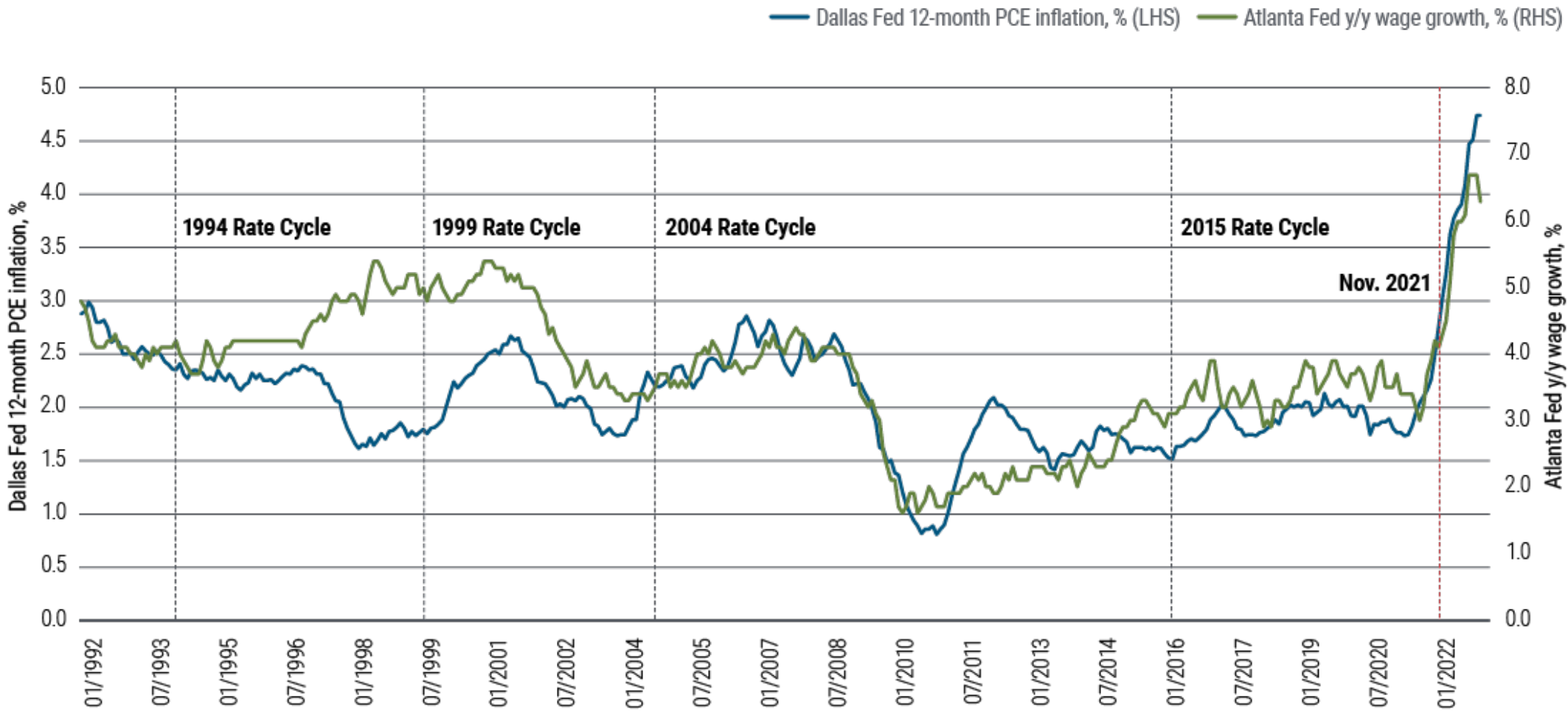
(US dollar index, January 2006 = 100)



Sources: IMF Currency Composition of Official Foreign Exchange Reserves (COFER), US Federal Reserve Board, and IMF staff estimates.

Note: The "other" category contains the Australian dollar, the Canadian dollar, the Chinese renminbi and other currencies not listed in the chart. China became a COFER reporter between 2015 and 2018. See Arslanalp and Tsuda (2015) for an application of the methodology. Interest rate changes may also affect currency shares although these effects tend to be smaller. The US dollar index is the Federal Reserve's Advanced Foreign Economy Dollar index. The bottom panel uses a different scale to focus on the US dollar share.

Figure 1: U.S. price and wage inflation since 1992



Source: Federal Reserve Bank of Dallas trimmed mean 12-month U.S. PCE (Personal Consumption Expenditures) inflation rate, monthly through October 2022; Federal Reserve Bank of Atlanta wage growth tracker, overall 3-month moving average of median U.S. wage growth (not seasonally adjusted, year-over-year % change) through November 2022

U.S. Trade Balance a Determinant of USD Circulation

- European Union
 - External Exports in 2021, US\$2.5 Trillion (29.5% of global exports)
 - Imports in 2019, US\$8.02 Trillion **
- United States
 - Exports in 2021 US\$1.63 Trillion *
 - Imports in 2023 US\$2.73 Trillion *

*Source: Observatory Economic Complexity

**Source: World Bank Data