

The dollar is sinking: here's why

Story by Hugh Cameron 7-7-2025

The U.S. dollar is tumbling as President [Donald Trump](#)'s economic agenda—at the executive and legislative level—takes full shape.

Economists told *Newsweek* this could advance Trump's goal of promoting American goods in foreign markets and strengthening exports, but warn that a weakened dollar comes with significant downsides, including the jeopardization of its status as the world's reserve currency. *

The U.S. Dollar Index—which tracks its value relative to a basket of major foreign currencies—has declined by more than 10 percent over the past six months. This marks the steepest first-half slump, and the worst beginning for a presidential term, since its creation in 1973.

Achieving this milestone comes amid a period of flux for the U.S. economy. On Friday, Trump signed the One Big Beautiful Bill Act, which had been narrowly passed by the Republican-controlled House of Representatives the day before. The sweeping budget reconciliation package contains new spending measures and an extension of Trump's 2017 tax cuts, which, together, budget watchdogs believe could inflate the nation's already-sizable national deficit. *

This week will also see the expiry of the 90-day pause placed on Trump's reciprocal tariffs in April. While a handful of countries have secured trade deals, the president has suggested that nations who were unable to do so during the three-month window could be subject to even higher rates than those announced on "Liberation Day."

Experts who spoke to *Newsweek* emphasized a confluence of these economic factors, and their combined impact on America's fiscal outlook, in the dollar's recent decline. !

"The dollar is depreciating because global investors are less confident in the United States providing stable policies geared toward macroeconomic growth and a strong financial system," said Ryan Monarch, a professor of economics at Syracuse University. "Recent policies such as extremely high tariffs, increased government debt, and worries about inflation have all contributed to the falling dollar." *

Monarch, a former principal economist at the Federal Reserve Board of Governors' International Finance Division, added that the prospect of the central bank lowering interest rates to stimulate economic growth prospects, "has led to weaker demand for dollar-denominated assets, and thus further dollar depreciation."]

Ryan Sweet, chief U.S. economist at Oxford Economics, similarly noted that investors were "reassessing the outlook for the US economy" as a result of the tariffs. "Tariffs will slow the U.S. economy and reduce the expected return on investment for investors, pushing some away from the dollar," he told *Newsweek*.

Last month, the Organisation for Economic Co-operation and Development (OECD) cut its growth outlook for the U.S. economy to 1.6 percent from 2.2 percent in March; it said this reflected the "substantial increase" in import taxes, as well as "high economic policy uncertainty," declines in net immigration and reductions to the federal workforce.

"The strength of any currency depends on people's willingness to hold it, and the world now is skeptical of the future of the U.S., especially with the passage of the budget bill," said Peter Simon, a professor at Northeastern University's Department of Economics. "So people around the world are selling their dollars for other currencies: euro, pound sterling, yen, and yuan for more stability."

What Are the Consequences of a Falling Dollar?

A sharp decline in a currency's relative value carries with it a host of economic effects. These impacts are especially pronounced for the dollar, given its status as the world's primary reserve currency and the trillions held in dollar-denominated assets abroad.

For Americans at home, a weakened dollar can increase the cost of imports, resulting in price inflation and the erosion of consumers' purchasing power. A declining dollar also makes it more expensive for Americans to travel abroad, where their dollars will translate into smaller sums of the local currency.

"A depreciation in the U.S. dollar is inflationary as it will, over time, increase nonfuel import prices," Sweet said. "The depreciation in the dollar increases the risks that tariffs boost consumer prices more than anticipated this summer and into the fall."

A falling dollar would also damage the national balance sheet of those countries who hoard stockpile it in reserves, while hurting foreign investors holding dollar-denominated assets such as Treasury bonds.

However, it could make America a more affordable, and attractive, location for international tourists. Sweet added that a declining dollar can also prove a "tail wind" for exporters, by making their goods more affordable in the global market.

This dual impact on imports and exports—reducing one while boosting the other—appears to align with one of Trump's stated tariff purposes: the reduction of trade deficits. His tariff announcements and their impact on the currency even led to speculation that deliberately "crashing" the dollar was a purposeful choice by the administration.

Many in Trump's cabinet have previously expressed concern over the implications of an overly strong dollar, and skepticism regarding its status as the world's reserve currency.

Vice President JD Vance, while still serving as an Ohio senator in 2023, said that the dollar's strength and centrality arguably represented "a massive subsidy to American consumers but a massive tax on American producers," given this resulted in floods of "mostly useless imports."

Stephen Miran—now chair of Trump's Council of Economic Advisers—wrote in November that trade imbalances and the handicaps faced by domestic industry were rooted in "persistent dollar overvaluation." In April, Miran said that a strong dollar had placed "undue burdens on our firms and workers, making their products and labor uncompetitive on the global stage." !

However, others within his administration, notably Treasury Secretary Scott Bessent, have voiced their support for a strong dollar policy and safeguarding its dominant global position.

Trump has consistently expressed similar support. In nominating the Treasury secretary in November, the president-elect said Bessent would help him "fortify our position as the World's leading economy, center of innovation and entrepreneurialism, destination for capital, while always, and without question, maintaining the U.S. Dollar as the reserve currency of the world." Amid talk of the BRICS economic alliance considering introducing an alternative reserve currency, the president also threatened each of the members with "100-percent tariffs" should they moved forward with this plan.

However, Monarch said that the dollar's 2025 decline could make such a change more likely. "In the long run, the weakening dollar and less desire to hold U.S.-backed assets may strengthen efforts to design an international reserve system that is not just tied to the U.S. currency, but to other currencies around the world, including the Chinese renminbi," he added.

Simon added that, while no single national currency has the power and geopolitical backing to lead to full de-dollarization, "a reserve currency basket" made up of several could rival its dominance in the future.

The French Institute for International and Strategic Affairs (IRIS) found that the dollar still accounts for roughly 60 percent of global foreign exchange reserves, compared with around 20 percent for the euro, 5 percent for the Japanese yen, 4 percent for the pound, and only 2 to 3 percent for the yuan.

Regardless of its longer-term fate, experts said that the dollar will continue to feel downward pressure in 2025 and beyond.

Sweet said he expects the dollar to "stabilize in the second half of this year but resume its depreciation next year," given America's weakened growth outlook and persistent "fiscal sustainability concerns."

Monarch added that none of the factors that has contributed to its decline shows signs of reversing in the near future.

He said: "Trade deals to potentially lower tariffs have been delayed or underwhelming, recent fiscal policy moves appear likely to add significantly to U.S. government debt, and the effects of already-imposed tariffs on inflation are still uncertain."

