

## New glossary entry: petrodollars

Published: March 23, 2026, 8:13 am

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*I was specifically asked about this topic, and as it was by Jacqueline, with whom I am 9n holiday, I claim that as justification for producing this new glossary entry that has a particular economic relevance at present.*

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Petrodollars are US dollars earned by oil-exporting countries through the sale of petroleum on international markets. The term is most closely associated with the system that developed from the 1970s onwards, in which most global oil trade has been priced and settled in US dollars.

Petrodollars are not a special form of money. They are a consequence of how energy markets, currency systems and geopolitics have been organised. Their key characteristics include the following.

First, oil priced and traded in US dollars. Most international oil transactions are denominated in dollars. This means countries that import oil must obtain dollars to pay for it, creating continuous global demand for the US currency.

Second, large dollar surpluses for oil exporters. Oil-producing countries often earn more in dollar revenues than they spend domestically. These surpluses accumulate as financial assets held abroad, frequently managed through sovereign wealth funds or central banks.

Third, recycling through global financial markets. Petrodollars are typically reinvested in international financial assets, particularly US government bonds and other dollar-denominated securities. This “recycling” supports global liquidity and helps finance US deficits.

Fourth, reinforcement of US monetary dominance. Because oil is a universally required commodity, pricing it in dollars entrenches the dollar’s role as the world’s primary reserve currency. It strengthens demand for US financial assets and gives the United

States significant structural advantages in global finance.

Fifth, integration of energy, finance and geopolitics. The petrodollar system reflects political arrangements as much as economic ones. Security relationships, trade patterns and financial flows are intertwined, making oil pricing a matter of strategic importance.

A key question often asked is what would happen if oil were no longer traded in US dollars.

First, global demand for dollars would likely decline, but not collapse. If oil were priced in multiple currencies, countries would no longer need to hold dollars specifically for energy purchases. However, the dollar's role in trade, finance and reserves is broader than oil alone, so demand would fall at the margin rather than disappear.

Second, reserve currency patterns would diversify. Central banks might hold a wider mix of currencies. euros, yuan, sterling, and others, reflecting more varied trade relationships. This would reduce, but not eliminate, the dominance of the dollar.

Third, US external financing would become more constrained. Reduced automatic demand for dollar assets could make it harder, at the margin, for the United States to run persistent trade deficits without adjustment. Interest rates and exchange rates might become more sensitive to international portfolio choices.

Fourth, financial markets would adjust rather than fragment. Oil markets would continue to function in whatever currency or currencies were agreed. Exchange rate mechanisms and hedging instruments already exist to manage multi-currency trade, so disruption would be transitional rather than systemic.

Fifth, geopolitical influence would be redistributed. The ability to price oil in dollars confers strategic advantages, including influence over global finance and sanctions regimes. A shift away from dollar pricing would modestly reduce that influence and redistribute power within the international system.

From a Funding the Future perspective, the petrodollar system illustrates that global monetary arrangements are historically contingent and politically constructed. The dominance of the dollar is reinforced by oil pricing, but it does not depend on it alone.

If oil ceased to be traded in dollars, the global system would evolve, not collapse. The deeper lesson is that money and power are inseparable: currency dominance reflects institutional strength, financial depth and geopolitical reach, not any intrinsic property of the currency itself.