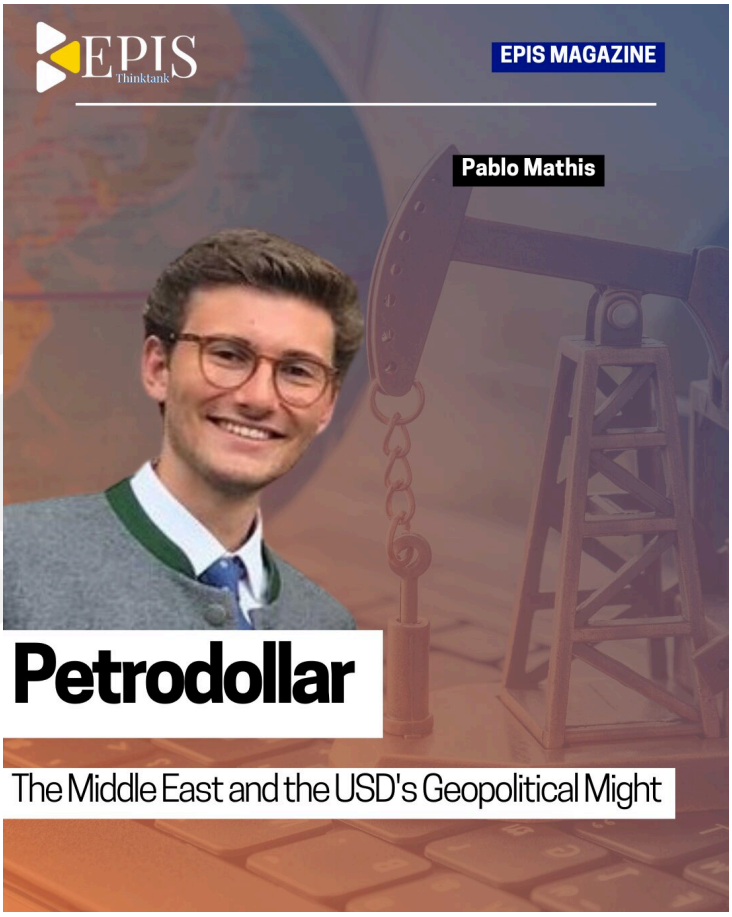
Petrodollar

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The Inception and Power of the Petrodollar

The petrodollar followed a 1974 agreement between the US and Saudi Arabia, which was soon followed by other Gulf states. In exchange for US military protection, Gulf states sold their oil in USD. Ever since, the petrodollar has been linked to the USD's global dominance. But what makes the petrodollar such a powerful financial instrument?

The Decline of the Petrodollar?

The US-Iran war might weaken the petrodollar in two ways. First, facing Iranian retaliation for a US-Israeli attack on Iran, Gulf states may increasingly question the US's ability to provide security for the Gulf states. This would erode the very bargain that gave rise to the petrodollar in the 1970s. Second, as oil prices rise, non-Gulf states might seek alternative energy sources, reducing the importance of oil and, by implication, the dominance of the USD.

Petrodollar: Continuing Resilience?

Despite the abovementioned scepticism, Gulf states still hold a substantial amount of their savings in USD. Hence, if they were to abandon the USD for oil trade entirely, the USD's subsequent loss of value would reduce their own savings. This means Gulf states should have some interest in upholding the petrodollar and securing the USD's value. Moreover, the US is the world's largest oil producer. Hence, with US oil continuing to be traded in USD, the USD's future prevalence might be ensured.

Uncertain Future

As the future of the Middle East lies in limbo, so does the future of the petrodollar. But irrespective of how the future might turn out, one thing seems certain: the future of US power in the region will be closely tied to the petrodollar.

Further Reading

Deutsche Bank Research Institute. (2026, March 24). What Iran means for the dollar: A perfect storm for the petrodollar. https://www.dbresearch.com/PROD/IE-PROD/PDFVIEWER.calias?pdfViewerPdfUrl=PROD0000000000622186&rwnode=REPORT

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