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## **Analysis of the Management of Currency Composition of Foreign Exchange Reserves in Australia\***

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### **ABSTRACT**

Following the global financial crisis (GFC) in 2007, questions have been raised regarding the prospect of the US dollar continuing its dominance as the principal reserve currency. The increased volatility of the US dollar exchange rate and the uncertain sustainability of the US economic growth since that time have created pressure for central banks around the globe to shift their US dollar reserve holdings to other currencies. Amongst the major reserve currencies, the euro has been considered by a number of central banks to be an alternative currency to the US dollar. In light of the above considerations, this paper aims to present an empirical analysis on the different transaction factors that affect the currency composition holding of the reserve currencies held by the central bank of Australia, the Reserve Bank of Australia (RBA).

Keywords: Currency composition, Foreign exchange reserve, US dollar, Euro, Transaction theory, Reserve Bank of Australia

JEL classification: E58, F31, G15.

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