

*PhD, Associate professor Volodymyr Tokar*

International Finance Department

International Economics and Management School

Kyiv National Economic University Vadym Hetman

## **Transformation Tendencies of the Global Monetary System**

### INTRODUCTION

National economies' cooperation effectiveness depends on global monetary system based on several key currencies with essential prevalence of the US dollar. Gold losing its role of the world money means that the global monetary system stability reflects the level of trust to economies of the reserve currencies' issuers. The USA misuse their national currency to finance the chronic budget and trade deficits as there is a constant demand on US dollars as a global key reserve currency.

Due to the vulnerability of a contradiction between a global role of the US dollar as the key reserve and international settlement currency and a national identity of the Federal Reserve System, it is high time to discover ways to modernize the global monetary system in order to increase its stability.

The modern global monetary system does not fulfill two main functions, namely: creating an appropriate environment for international production and labor division; ensuring its structural elements' stable functioning [Кержковська, 2010, p. 237], so there are evident signals of crisis and the need for reconstruction of the global monetary system.

### THE US DOLLAR AS THE SOURCE OF THE GLOBAL FINANCIAL INSTABILITY

The USA produces twenty percent of the world gross domestic product, but consumes forty percent of it. Millions of people around the world keep their savings against the rainy day in US dollars as they used to do in golden coins in the past. To print a 100-dollar banknote costs for the US government approximately 3 cents, i.e. the direct income makes 99,97 US dollars per 100-dollar banknote [Швайка, 2011, p. 193–194], thus profitability equals 333 233,3 %. It is really hard to imagine any other kind of business that is as much profitable as the US dollar printing. The world gross domestic product was about 60 trillion

US dollars in 2008, but the total value of securities nominated mainly in the US dollars equaled to 516 trillion US dollars [Кириленко, 2010, p. 151] that created additional pressure upon economic stability on a global scale. The share of the US dollar in the global monetary reserves slightly declined during 1995–2009 period (table 1).

**Table 1. Dynamics of the World Official Monetary Reserves (1995–2009), %**

Year / currency	1995	1997	1999	2001	2003	2005	2007	2009
USD	59,0	65,2	70,9	70,7	65,8	66,4	64,1	61,5
Euro	X	X	17,9	19,8	25,3	24,3	26,3	28,1
German mark	15,8	14,5	X	X	X	X	X	X
L.S.D.	2,1	2,6	2,9	2,7	2,6	3,6	4,7	4,2
Japanese yen	6,8	5,8	6,4	5,2	4,1	3,7	2,9	3,0
French frank	2,4	1,4	X	X	X	X	X	X
Swiss frank	0,3	0,4	0,2	0,3	0,2	0,1	0,2	0,1
Other	13,6	10,2	1,6	1,2	1,9	1,9	1,8	3,1

Source: [Вожжов, 2011, p. 24–25].

## TRANSFORMATION TENDENCIES

New monetary zones foundation is to become one of the key principles of the global monetary system reformation. Emergence of new regional reserve currencies will increase the global monetary system stability [Кержковська, 2010, p. 240].

The USA, Canada and Mexico agreed to create a new regional currency – “amero” in 2006, which would replace the American and Canadian dollars and Mexican peso [Кириленко, 2010, p. 153]. The exchange ratio amero per US dollar is supposed to be 1:1 that will essentially reduce social tension in the USA as their residents will freely use new currency in domestic markets. However this step will lead to depreciation of all the US dollar savings of external owners [Вожжов, Білоусов, 2011 p. 26].

Australia and New Zealand declared the intention to create a common currency at the beginning of 2006. It was decided to study in details possibilities of such transition, considering huge volume of mutual commodity turnover [Вожжов, Білоусов, 2011, p. 26].

South African Countries, such as South African Republic, Namibia, Swaziland, Lesotho, and Botswana also develop the project of regional monetary

zone. The first real step in this direction was the introduction in 1998 the uniform tourist checks issued in the West African monetary units (“zaro”) which are accepted by all regional banks. New African continental currency “afro” supposed to be introduced until 2028, but many African countries have already created monetary unions, such as the Western African Economic and Monetary Union, Central African Monetary and Economic Community [Вожжов, Білоу-сов, 2011, p. 26].

Six member-states of the Gulf Cooperation Council (GCC) – the Persian Gulf region – Bahrain, Qatar, Kuwait, United Arab Emirates, Oman, and Saudi Arabia declared the intention to create a new regional currency the “Gulf dinar” or “khaliji” with prospects of a future common market [Вожжов, Білоу-сов, 2011, p. 25].

Latin America also plans to introduce a new regional currency “pachu”, at first an electronic mutual settlement currency, and over time as a full-scale regional currency. Leaders of Bolivian Alternative for People of Latin America (ALBA) member-states (Bolivia, Venezuela, Honduras, Cuba, Nicaragua, Ecuador, Antigua and Barbuda, Saint Vincent, Grenada, the Commonwealth of Dominican Republic) want to issue a new common conventional monetary unit – “sucre” [Кириленко, 2010, p. 153].

Nazarbayev N., the President of Kazakhstan, announced the idea of a new regional supranational monetary unit in February, 2009. The “euras” (abbreviation for Europe and Asia) is supposed to become a “supranational settlement and payment non-cash unit” for the EURASEC (the European and Asian Economic Commonwealth) member-states (Kazakhstan, Russia, Belarus, Kyrgyzstan and Tajikistan). The leaders of Shanghai Cooperation Organization (SCO), which unites the People's Republic of China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan and Uzbekistan, declared the intention to create a new monetary unit as a “waged basket” of their national currencies at Yekaterinburg meeting in 2009 [Кириленко, 2010, p. 153].

Asian and Pacific Region countries also plan to issue a regional currency ACU – Asian Currency Unit. Introduction of a new monetary unit is initiated by the Asian Development Bank. It is planned that ACU will be a “basket” of 13 national currencies of the Asian countries, however, according to analysts, the leading roles will be given to the Chinese Yuan and Japanese yen as the People's Republic of China and Japan have large volumes of gold and foreign exchange reserves [Вожжов, 2011, p. 26].

Emergence of new regional monetary unions and currencies will change the global monetary system in the medium and long-term period. The current tendency is the gradual replacement of the US dollar by the Chinese Yuan. The Chinese Yuan becomes more and more popular as the settlement and reserve currency in the world. The Chinese government declared the goal to achieve for the Chinese Yuan the world reserve currency status by the year 2020, its share is

planned to reach 3 percent of the total world monetary reserves by the mentioned time. The Chinese long-term strategy includes a stage-by-stage widening the sphere of the Chinese Yuan usage, first of all the mutual trade and investments [Софіщенко, 2011, p. 53].

For example, on June 1, 2012, Japan and the People's Republic of China shifted their mutual trade payments and settlement only in their national currencies – Japanese yen and Chinese Yuan without the US dollar mediation [Япония, (http)] that considerably reduces transaction expenses of residents of both countries and lessens the dependence on the highly fluctuating US dollar.

The National Bank of Belarus made the Chinese Yuan one of its reserve currencies [Вожжов, Коновалова, 2009, p. 17]. Similar steps are being prepared by other Central and Eastern European countries, such as Ukraine and Russia.

Another interesting tendency of the global monetary system is the growing role of other national currencies. On January 28, 2011, the State Export Import Bank of Ukraine (the state-owned universal financial institution) placed Eurobonds in Ukrainian hryvna (2,385 bln UAH or 300 mln USD), the annual interest rate is eleven percent. The Eurobonds will be in circulation till February 3, 2014, with interest paid once a year. The Credit Suisse bank, Citibank and Deutsche Bank became the organizers of this financial operation. Over ninety percent of the Eurobonds were bought by the international investors from the United Kingdom, Switzerland, other European countries and the American off-shore companies [Укрэксимбанк, (http)].

The Ministry of Finance of Ukraine chose the bank syndicate of JP Morgan, Morgan Stanley, VTB Capital and the “Savings Bank of Russia” to be lead-managers of the external state loan in 2012 to be nominated in Ukrainian hryvna [Украина, (http)].

The Ukrainian Parliament has intention to allow international financial institutions to place bonds in Ukrainian hryvna. The relevant bill No. 9470 (prepared by the Cabinet of Ministers of Ukraine) was voted by 263 deputies (the necessary minimum is 226), and some amendments were suggested. It is supposed that the Ukrainian government and the National Bank of Ukraine will permit the international financial institutions (first of all, the European Bank of Reconstruction and Development and the International Monetary Fund) to issue bonds nominated in Ukrainian hryvna in Ukraine itself and abroad. The bill provides that the funds obtained by the international financial institutions from placement of bonds may be used only for crediting the non-financial sector of the Ukrainian economy in the Ukrainian hryvna to implement long-term investment projects [Рада, (http)]. Previously, the Ukrainian Parliament allowed the International Finance Corporation to conduct similar operations, but the permitted annual interest rate of 10 percent was too low for the International Finance Corporation [ЕБФП, (http)].

## CONCLUSIONS

The main crisis management transformation tendencies of the global monetary system are: the weakening positions of the US dollar and euro as the key reserve currencies; the gradual formation of the regional monetary unions; the shifting to the national currencies in mutual trade and settlement operations without the US dollar mediation; the gradual replacement of the US dollar by the Chinese Yuan as the key reserve currency.

The key regional monetary unions in formation are: 1) the NAFTA (USA, Canada, Mexico) currency – “amero”; 2) the African continental currency – “afro”; 3) the South American continental currency – “pachu”; 4) the Asian and Pacific region currency – ACU (Asian Currency Unit); 5) the Persian Gulf region currency – “khaliji”; 6) the Caribbean region currency – “sucru”; 7) the European and Asian Economic Commonwealth currency – “euras”.

## REFERENCES

- Вожжов А., Білоусов О., 2011, *Україна в новій архітектурі світової валютної системи*, Вісник НБУ, No 8.
- Вожжов А., Коновалова М., 2009, *Про грядущі зміни у світовій валютній системі*, Вісник Університету банківської справи Національного банку України, No 1 (14).
- ЕБРР продвигаєт гривну*, [http://finforum.org/page/index.html/\\_/bank-sektor/jebrr-prodvigajet-grivnu-r30159](http://finforum.org/page/index.html/_/bank-sektor/jebrr-prodvigajet-grivnu-r30159).
- Кержковська Д., 2010, *Проблеми і перспективи розвитку світової валютної системи в умовах глобальної економічної кризи*, Механізм регулювання економіки, No 1.
- Кириленко В., 2010, *Сучасний стан світової валютно-фінансової системи та перспективи її розвитку*, Вісник ТНЕУ, No 3.
- Рада попередньо разрешила ЕБРР и МВФ выпускаєт гривневые облигации*, <http://podrobnosti.ua/power/2012/05/17/837053.html>.
- Софіщенко І., 2011, *Юань і євро: перспективи у лізі міжнародних резервних валют*, Вісник НБУ, No 7.
- Украина отобрала лід-менеджерів єврооблигацій на 2012 год*, <http://banknews.com.ua/21667.html>.
- Укрэксимбанк привлек внимание*, <http://kommersant.ua/doc/1577470>.
- Швайка М., 2011, *До питання про шляхи подолання світової фінансової кризи, запровадження світової резервної валюти і організації для управління нею міжнародного банку*, Вісник економічної науки України, No 1.
- Япония и Китай решили обходиться без долларов*, [http://economics.lb.ua/finances/2012/05/29/153508\\_yaponiya\\_kitay\\_reshili\\_obhoditsya\\_bez.html](http://economics.lb.ua/finances/2012/05/29/153508_yaponiya_kitay_reshili_obhoditsya_bez.html).

### *Summary*

The article reveals the contradiction between the role of the US dollar as the main global reserve currency and its national origin, which causes the misuse by the US government to cover the chronic trade and budget deficit.

The author researches the crisis management transformation tendencies of the global monetary system, namely the weakening positions of the US dollar and euro as the key reserve currencies; the gradual formation of the regional monetary unions; the shifting to the national currencies in mutual trade and settlement operations without the US dollar mediation; the gradual replacement of the US dollar by the Chinese Yuan as the key reserve currency.

The author discloses that the future key regional currencies are „amero” in the USA, Canada and Mexico; „afro” in Africa; „pachu” in Latin America; ACU in the Asian and Pacific region; „Golden dinar” in the Persian Gulf region; „sucré” in the Caribbean region; „euras” in the European and Asian Economic Commonwealth.

## **Transformacyjne tendencje w globalnym systemie monetarnym**

### *Streszczenie*

Artykuł ukazuje sprzeczności pomiędzy rolą dolara amerykańskiego jako głównej globalnej waluty rezerwowej a jego narodowym charakterem, co powoduje niewłaściwe jego wykorzystanie przez rząd Stanów Zjednoczonych do pokrywania chronicznego handlowego i budżetowego deficytu.

Autor badaniom poddaje tendencje transformacyjne w ramach zarządzania kryzysowego globalnym systemem pieniężnym, w szczególności osłabianie się pozycji dolara i euro jako kluczowych walut rezerwowych, stopniowe kształtowanie się regionalnych unii walutowych, zwrot w kierunku walut narodowych we wzajemnym handlu i operacjach inwestycyjnych bez pośrednictwa dolara, stopniowe zastępowanie dolara amerykańskiego przez chińskiego yuana jako kluczowej waluty rezerwowej.

Autor przewiduje, że kluczowymi regionalnymi walutami w przyszłości będą „amero” w Stanach Zjednoczonych, Kanadzie i Meksyku; „afro” w Afryce; „pachu” w Ameryce Łacińskiej; ACU w regionie Azji i Pacyfiku; „złoty dinar” w regionie Zatoki Perskiej; „Sucré” w regionie Karaibów; „euras” we Wspólnocie Gospodarczej Europy i Azji.