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THE IMPACT OF THE CHANGING ROLE OF THE DOLLAR ON THE STABILITY OF THE NATIONAL FINANCIAL SYSTEM

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Abstract

The article is devoted to the study of the causes, factors, manifestations and consequences of dedollarization of the world economy. The main events that had the greatest impact on the US dollar receiving the status of a world reserve currency are identified and analyzed.

The structure of official foreign exchange reserves is analyzed. It is noted that the leading world reserve currency is the US dollar, but over the past two decades the share of world reserves in US dollars has decreased. It has been determined that the global policy of dedollarization of the world economy in recent years has been intensified by many countries to an even greater extent than in previous crisis periods. This is manifested, first of all, in the fact that national economies, trying to protect their financial systems from the «uncontrollable» flow of dollars, are switching to settlements in national currencies. It is concluded that the decline in the importance of the dollar as the main reserve currency has been steadily observed over the past several decades, but at the present stage of development, no currency has the potential to replace it in this capacity.

Keywords

dollarization, dedollarization, international reserve currency, currency bloc, common currency, gold and foreign exchange reserves.

INTRODUCTION.

Russian economist A. Kobyakov notes[1] that the de-dollarization process is globally determined, as history has seen numerous instances of global or macro-regional currencies losing their significance. This has never happened as a result of such a sudden shift, within the span of a single generation. It's usually a process that affects at least a couple of generations. Today, this historical "fading" of the dollar is more than evident. The long-standing agreement between the People's Republic of China (PRC) and Brazil to switch to the real and yuan for trade between these countries, as well as the

[1] https://uabonline.org/english-news/us-devised-crypto-scheme-to-erase-massive-35t-debt-putin-advisor

establishment of the euro as the primary reserve currency in Russia, are significant events in the process of de-dollarization of the global economy[2].

The primary economic driver of dollarization is the preference of agents for the dollar over the national currency. This phenomenon occurs when the dollar is more stable and convertible than the national currency. The immediate cause that usually follows dollarization of the economy is weak government control over the money supply, which results in the national currency constantly depreciating. Therefore, agents are unwilling to hold assets in the national currency and optimize their asset portfolios in favor of the dollar.

Today, research into de-dollarization, or the diminishing role of the US dollar in international financial and trade transactions, is becoming increasingly important. This trend raises a number of questions and challenges for the academic community, policymakers, and the business community. Research into the de-dollarization of the global economy is currently relevant for a number of reasons:

• geopolitical and geoeconomic context: with the growth of geopolitical and geoeconomic tensions and conflicts between the US and other countries, de-dollarization is becoming a means of political influence and economic independence;

• international trade and finance are key components of the global economy. De-dollarization can affect the terms of trade partnerships, the cost of goods and services, and the stability of financial markets;

• with the development of new financial technologies and the emergence of cryptocurrencies, de-dollarization may find alternative paths and forms of implementation.

LITERATURE REVIEW. Therefore, research into de-dollarization processes should uncover their relationship with geopolitical and geoeconomic events and their impact on the global economy. A proper understanding of the de-dollarization process can contribute to maintaining financial stability and preventing financial crises, and will also assist in selecting the most effective strategies for preserving reserves and managing currency risks.

A large number of scholars have devoted their works to the issue of dollarization and de-dollarization of the global economy, as well as various theoretical and practical aspects associated with these phenomena: B. I. Alekhine [1], L. M. Borsch [2], E. M. Dudkova [3], M. V. Zharikov [4], D. V. Kozlova, E. S. Nikitina, O. A. Novitskaya [5], Yu. B. Kravchenko [6], Ya. A. Sapach [7], and others. R. Gouvea and M. Gutierrez, in their scientific work [8], examined the main consequences of the formation of a new global economic and political architecture, in which the US dollar may play a smaller role in global economic and financial markets. Wafa Fahmi Abdelati [9] examines recent global trends in dollarization growth and the experience of ensuring price stability in

[2] URL: http://forexaw.com/

dollarized economies, as well as approaches to de-dollarization. At the same time, recent trends in global economic development and the increased efforts of individual countries to de-dollarize their economies necessitate further research into the current trends and characteristics of this process.

METHODOLOGY. The following methods were used in the study:

- a historical deduction method was used to study the retrospective development of dollarization and de-dollarization processes in the global economic system;
- comparative and statistical analysis methods were used to assess the current state of de-dollarization processes in the global economy;
- graphical methods were used to visually present the material in the form of diagrams;
- methods of scientific abstraction and synthesis were used to identify key trends in the de-dollarization of the global economy and to substantiate the conclusions.

ANALYSIS AND RESULTS. The trend toward dollarization of the global economy was established in 1944 at the Bretton Woods Conference, when 44 countries pledged to maintain a fixed exchange rate for the US dollar. In 1971, prior to the Jamaica Monetary Conference, direct dollar convertibility into gold was abolished, but this did not reverse the existing trend, and the US dollar strengthened its position as the preferred reserve currency. The rapidly growing US money market and the stability of this currency ensured its long-standing dominance.

The globalization expansion, which accelerated since the early 1990s (part of which was the collapse of the global socialist system) and was characterized by the dominance of the then-most powerful country in the world, the United States, has today (according to many international experts) exhausted its potential for growth, development, and influence. In recent years, the notion has been established that global politics and economics are increasingly acquiring features characteristic of a so-called multipolar world, imparting fundamentally new dimensions to globalization processes.

The world's two largest economies - the United States and China - not only maintain their global leadership year after year, demonstrating remarkable economic, scientific, and technological achievements, but also forming a circle of partner countries around themselves, the strengthening of ties between which will likely lead to the formation of new institutional alliances or formations. Thus, the US sphere of influence already has a fairly long history and is formed by the G7 countries (USA, Canada, Great Britain, Germany, France, Italy, and Japan). China is the leader of the BRICS grouping (Brazil, Russia, India, China, and South Africa), which unites large countries with dynamically developing markets. However, it does not yet have the necessary international and integration influence, in part due to internal contradictions among its member countries.

Discussions about the US dollar losing its status as the world's reserve currency have been ongoing and have intensified during and after global financial and economic crises. This topic became particularly topical in 2008-2009, in 2020 amid the COVID-19 pandemic, and in 2023 following the rapid escalation of geopolitical and geoeconomic tensions between key players in the emerging multipolar world order. Over the past two decades, the share of global reserves in US dollars, due to various economic and political factors, fell from 72.3% in the first quarter of 2001 to 59.02% in the third quarter of 2023.

During 2023, the global trend toward de-dollarization of the global economy gained even greater momentum than during previous crisis periods. This is manifested primarily in the fact that national economies, attempting to protect their financial systems from the "uncontrolled" flow of dollars, are switching to settlements in national currencies. In March 2023, China and Brazil announced that they had reached an agreement to switch to settlements in their national currencies – yuan and reals – in bilateral trade [3].

Given the size of the Chinese and Brazilian economies and the volume of their foreign trade turnover ($157.5 billion in 2022), this could have negative inflationary consequences for the United States, as the main issuer of the dollar. Besides Brazil, Argentina has also agreed to pay for Chinese imports in China's national currency. Comparing the volume of Brazil's ($53.8 billion) and Argentina's ($12.6 billion) imports from China, these are not significant volumes capable of raising dollar inflation expectations. However, this is yet another evidence of de-dollarization in the system of international economic relations[4]. Problematic aspects of this process for China include the fact that China exports more than it imports, so it will inevitably hold large assets in Brazilian reals, which will significantly hinder investment.

Also, in March 2023, an official meeting of ASEAN finance ministers and central bank governors was held in Indonesia. The main agenda item was reducing dependence on the US dollar, euro, yen, and British pound sterling in financial transactions and transitioning to settlements in local currencies[5]. For ASEAN member countries, the active use of local currencies means deeper regional financial integration, stronger regional value chains, and overall financial resilience to various challenges. India, the world's fifth-largest economy in 2022 with a GDP of $3.39 trillion, is also contributing to the acceleration of the displacement of the US dollar as the currency of international settlements and is pursuing a campaign to internationalize its national currency[6].

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[3] geopoliticaleconomy.com
[4] oec.world/ en
[5] www.aseanbriefing.com/news/asean-finance-ministers-and-central-banks-consider-dropping-us-dollar-euro-and-yen-indonesia-calls-for-phasing-out-visa-and-mastercard
[6] theprint.in/ economy/why-are-african-countries-others-pushing-for-de-dollarisation-trade-in-currency-other-than-the-usd/ 1631276

In March 2023, the Reserve Bank of India allowed invoicing and payments in international trade in Indian rupees in 18 countries, including Botswana, Fiji, Israel, Myanmar, Malaysia and Singapore[7]. However, the situation is ambiguous: Russian banks, for example, having received Indian rupees from their oil exports and accumulated billions of rupees in Indian banks, are already experiencing problems with their further use due to limited demand on the global market[8].

As noted above, the issue of de-dollarization of the global economy was seriously raised in 2008-2009 due to the global financial crisis, but it was in 2023 that the period of active action began. The impetus for de-dollarization was undoubtedly the Russian Federation's special military operation in Ukraine, which entailed, among other things, financial sanctions from the United States: the freezing of $300 billion in assets of the Russian Central Bank and $30 billion in assets of Russian oligarchs and officials close to the Russian leadership[9].

A second, no less important, issue is the progressive growth of the US budget deficit and national debt. In May 2023, the Congressional Budget Office estimated that the federal budget deficit in 2023 would be $1.5 trillion—approximately $160 billion higher than in 2022—and the national debt would be $32.6 trillion (325.2% higher than at the end of 2008)[10]. In addition, the share of US GDP in the global value of this indicator is also decreasing - from 30.3% in 2000 to 25.3% in 2022[11].

In light of these changes, alongside the weakening position of the US dollar, the importance of other reserve currencies, primarily the euro and the Chinese yuan, is being reconsidered. Academics are debating the prospects of displacing the dollar, and given the globalization impact of certain processes on national economies, it is very difficult to predict the likelihood of certain hypotheses coming to fruition.

Currency analyst Stephen Jen, CEO of Eurizon SLJ, believes that the more likely outcome is the emergence of multiple currencies that undermine the dollar's dominance, signifying a transition to a "tripolar currency system" [10]. According to the analyst, this is the most likely scenario in the medium term, and forecasts for the yuan to take center stage are somewhat overestimated for a number of reasons. The most important of these is that China needs to work on improving its financial sector and the openness and flexibility of the yuan market. China maintains strict capital controls, and the availability of licenses for transactions and the low liquidity of the currency itself are significant obstacles to its rapid global adoption.

In the short term, according to Rockefeller International CEO Ruchir Sharma, it would be appropriate for national economies to increase their gold and foreign exchange

[7] economictimes.indiatimes.com/news/international/world-news
[8] www.cryptopolitan.com/india-and-uae-sign-agreements-trade-settlement-national-currencies
[9] thefinancialcrimenews.com
[10] www.thebalancemoney.com
[11] data.worldbank.org/indicator

reserves, and such a trend is already evident in the gold market [11]. Following the freezing of Russian central bank assets in 2022, annual central bank demand for gold increased by 18% to 4,741 tonnes, the highest level since 2011[12]. As the World Gold Council, an organization created by the world's major gold producers, notes, "Economic challenges will continue to worsen over the next few months, and with them, asset volatility will increase – factors that should help maintain investor interest in gold"[13]. At the same time, the US dollar still has strengths as a global reserve currency:

1) The US Treasury market is highly liquid and sufficient to meet the investment needs of the rest of the world. Central banks, investment funds, and pension funds around the world need to invest their temporarily idle financial resources with minimal risk (confirmed by high ratings). No country other than the US can attract such large amounts of money, guaranteeing its repayment and paying interest (however, the US external debt is also constantly growing). For example, government bonds of European countries, even large ones like Germany, cannot satisfy the demand for safe investments in euros;

2) The US dollar is freely convertible, unlike the Chinese yuan, so there is investment demand for both the US currency and corporate securities;

3) The US remains the fourth-largest exporter of high-tech goods, for which there is significant demand, and therefore demand for US dollars. The share of high-tech goods in industrial exports amounted to 20% in 2021[14]. Furthermore, most oil trading contracts are still concluded in dollars. Furthermore, the US dollar is used in agreements between countries with non-convertible currencies;

4) The US gold reserve remains one of the largest in the world, at 8,133 tonnes. Gold accounts for 75% of the country's total gold and foreign exchange reserves[15].

CONCLUSION. Based on the results of the study, it can be concluded that the dollar's role as the global reserve currency has been declining for several decades, but at the present stage and in the short term, no currency in the world is capable of fully replacing it in this capacity. Certainly, the development of digital assets and currencies; the proposed expansion of the use of the Special Drawing Rights (SDR) (the exchange rate is calculated daily based on a currency basket that includes the US dollar, euro, Japanese yen, Chinese yuan, and British pound sterling); and the creation of a fundamentally new reserve currency based on the SDR will ultimately lead to central banks and investors accepting new reserve assets, which will ultimately change the status of the US dollar as the global reserve currency.

Examples of the transition to settlements in national currencies between individual countries, the development of mechanisms for implementing a common currency, and

[12] www.ft.com/content/ef6ed550-422a-4540-a8af-41ff2ac30e67
[13] www.gold.org/goldhub/research/gold-market-commentary-july-2023
[14] data.worldbank.org/indicator
[15] tradingeconomics.com/country-list/gold-reserves

the formation of currency blocs confirm the dissatisfaction of a number of countries with the results of the globalization of the monetary system. As a result, not only the trend toward de-dollarization of the global economy has accelerated, but also the regionalization and fragmentation of the geopolitical world. If leading emerging market economies achieve their desired goal of dedollarization, a weakening of the dollar will be a side effect. Concerns about the stability of the global financial system will also intensify.

However, the dollar, in addition to being a clear proxy for virtually all commodities, also serves as a clear "safe haven" for many investments and capital during financial turmoil. The weakening of such safe havens and diminished confidence in them will likely lead to less predictable and even more chaotic capital flows between different (short-term) jurisdictions. Naturally, in such circumstances, the greatest losses will accrue to those countries that, in the absence of financial benchmarks, are unable to hedge their risks. Therefore, given the dynamic nature of dedollarization processes in the global economy, the implications and prospects are complex and controversial, leaving ample room for further research in this area.

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