

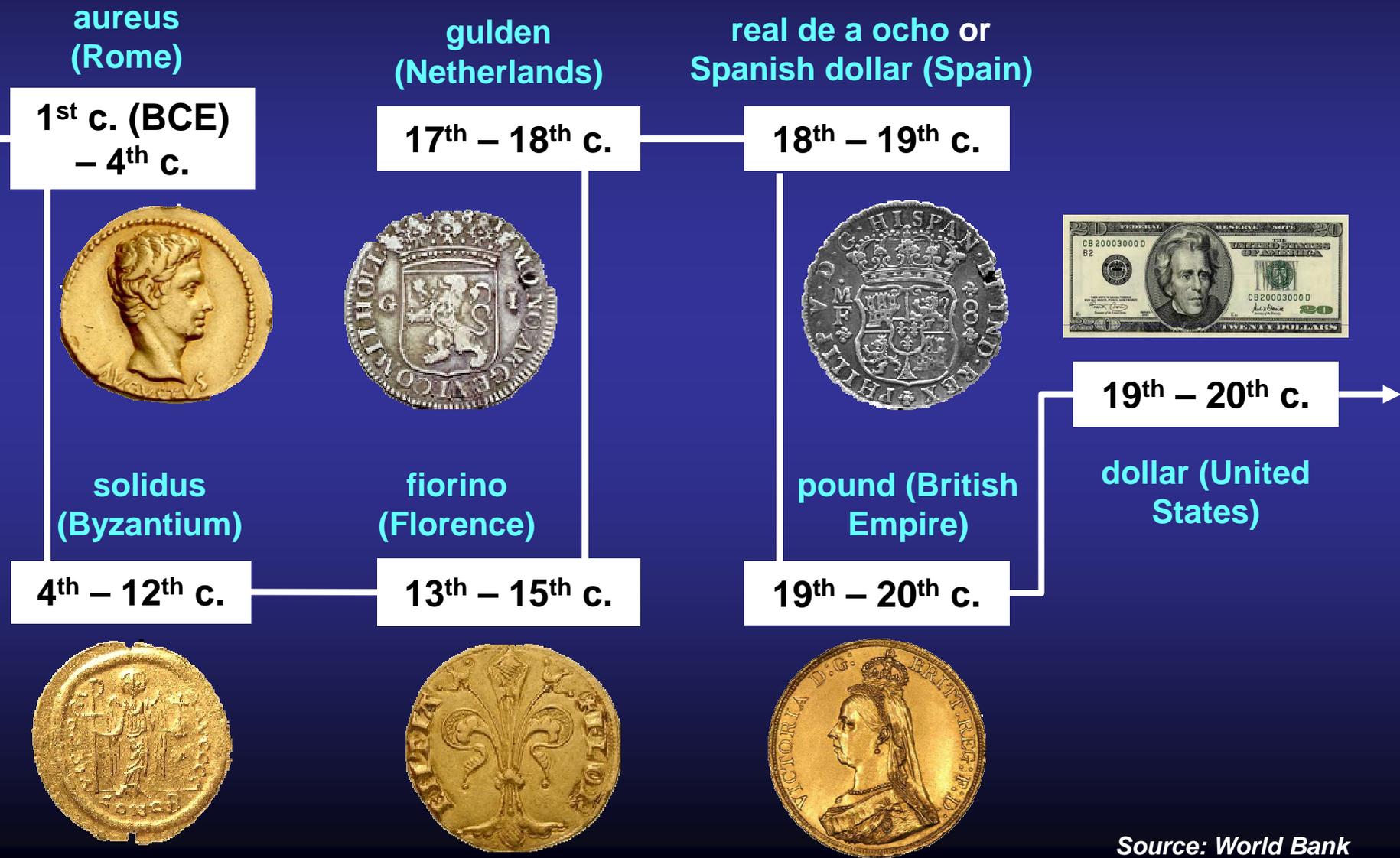
Past, Present and Future of the International Monetary System

Moscow
June 23rd-24th, 2011

Introduction

- **Bretton - woods monetary system**
- **Kingston monetary system**
- **Reserve Currency**
- **SDR as a Reserve Currency**
- **Future of International Monetary System**
- **Conclusion**

Historical Timeline of Dominant International Currencies (1)



Historical Timeline of Dominant International Currencies (2)

1860-1914



pound

since 1920s



dollar

1930s



dollar

1980s



dollar



pound



D mark



franc



yen

Source: World Bank

Bretton-woods Monetary System

Bretton-woods System

Tandem of USD and monetary gold

oz = 31.14 gr

then

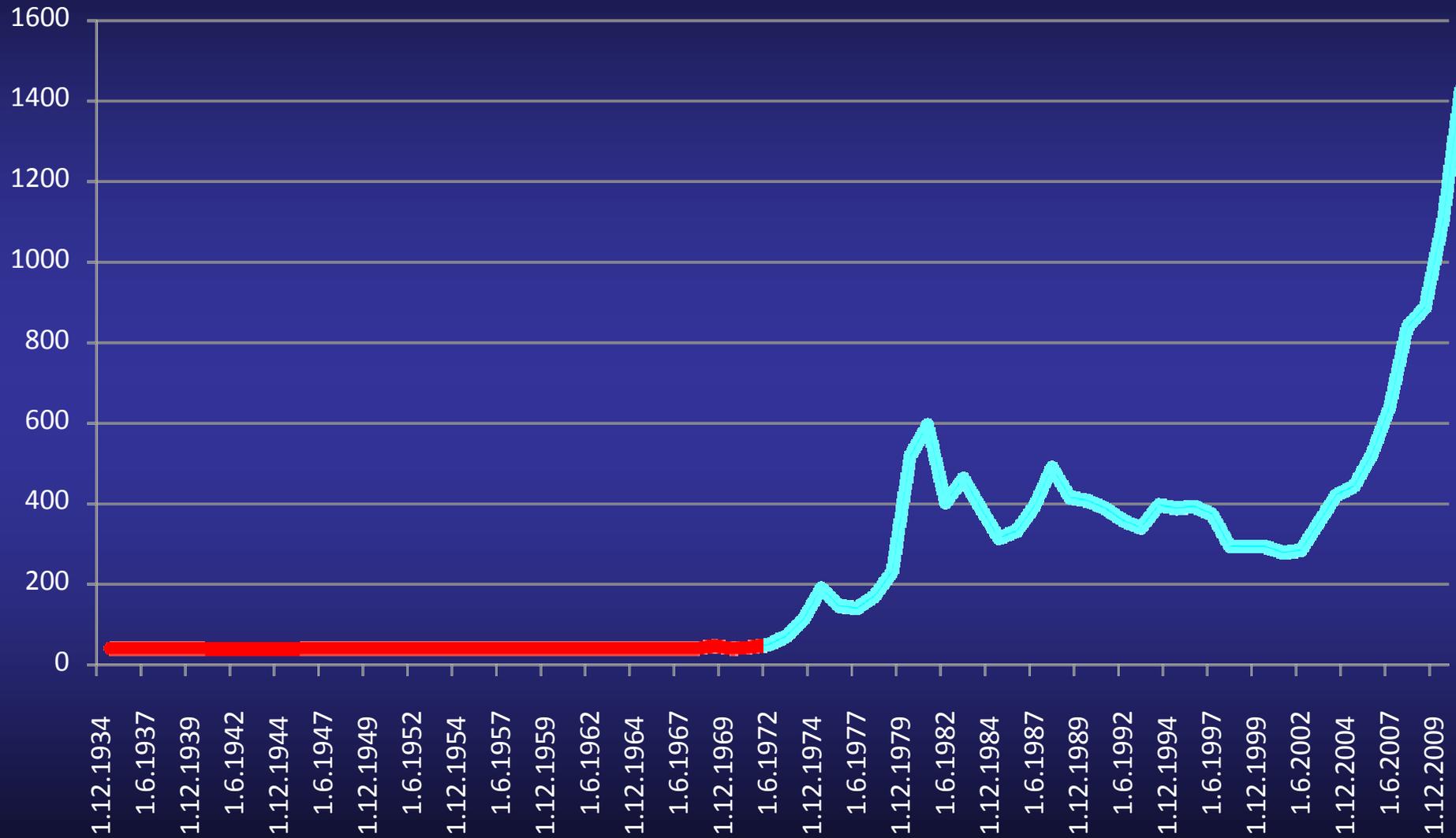
$$\frac{31.14}{35} = 0.888671$$

Parity

$$\frac{0.888671}{0.123624} = 7.20 \text{ ČSK/USD}$$

There were deviations from the
central party

Price of Gold



Source: Bloomberg

Factors behind the Collapse of the BW System

- USA - current account deficit – 1950's
- Unsustainability of gold prices
- Creation of Gold Pool – 1961
- Introduction of SDR – 1967
- Shutdown of Gold Pool – 1968
- Different prices for monetary gold – 1968
- August 15, 1971 – break down of the Bretton-woods system

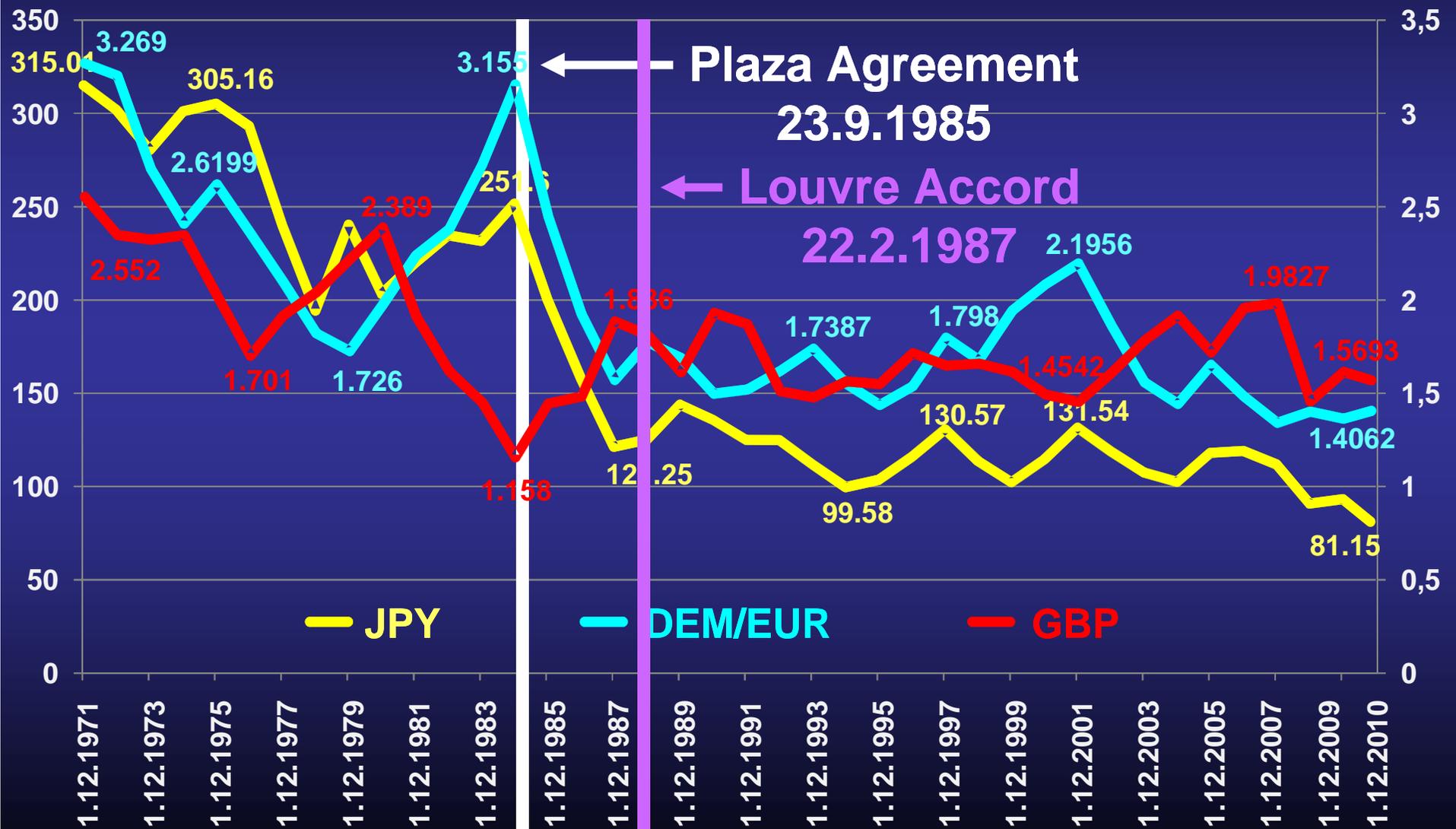
Kingston Monetary System

Floating – since 1973

Currently, the following exchange rate regimes exist:

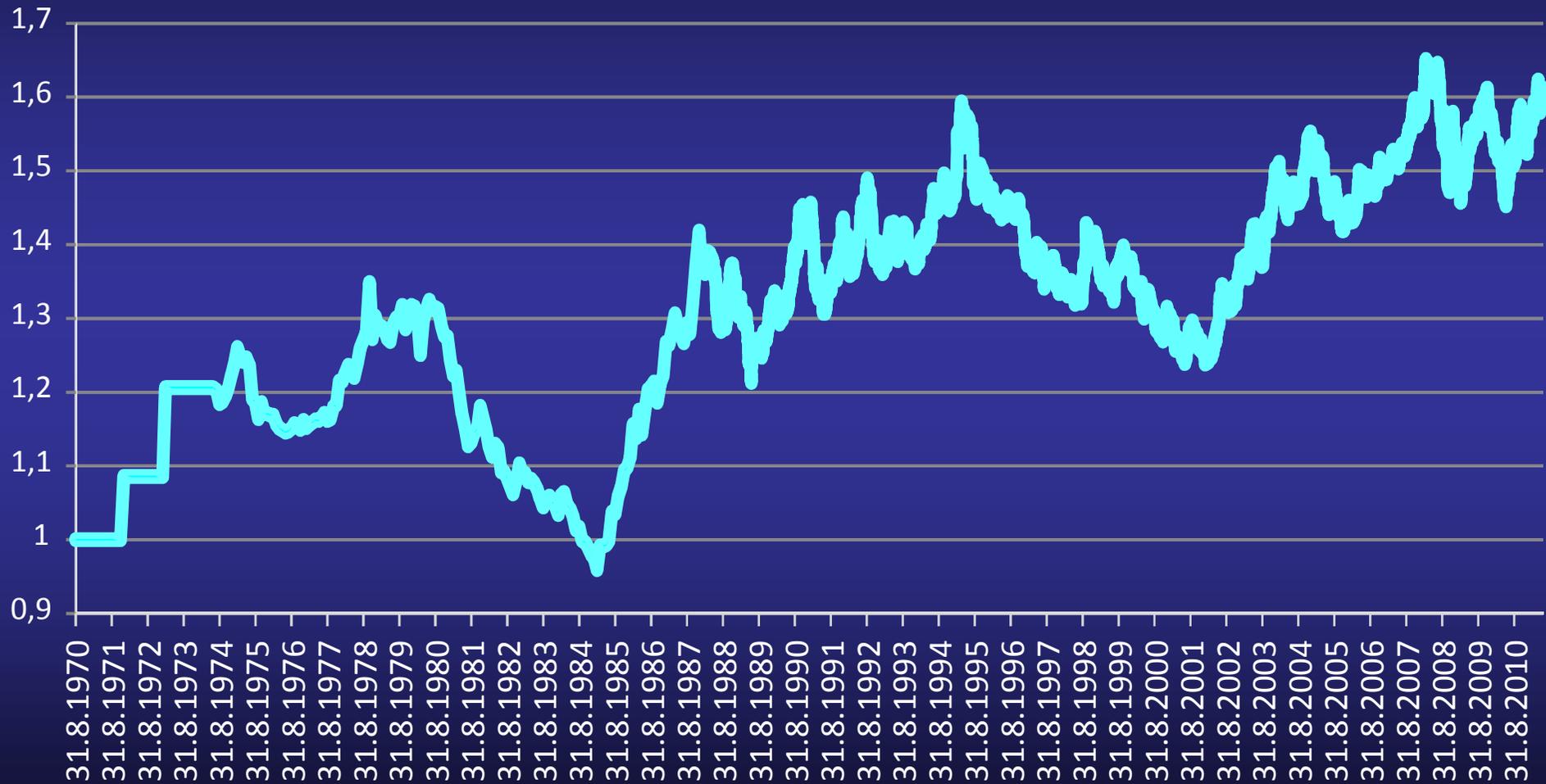
- **Floating**
 - Free
 - Managed
- **Fixed peg**
 - Currency board
 - Dolarization
 - Monetary union
- **Fixed intermediate exchange rates**
 - Currency basket
 - Crawling peg
 - Fixed nominal central parita
 - Target zones – based for equilibrium exchange rates

Exchange rate of the USD, JPY, DEM/EUR and GBP



Source: Bloomberg

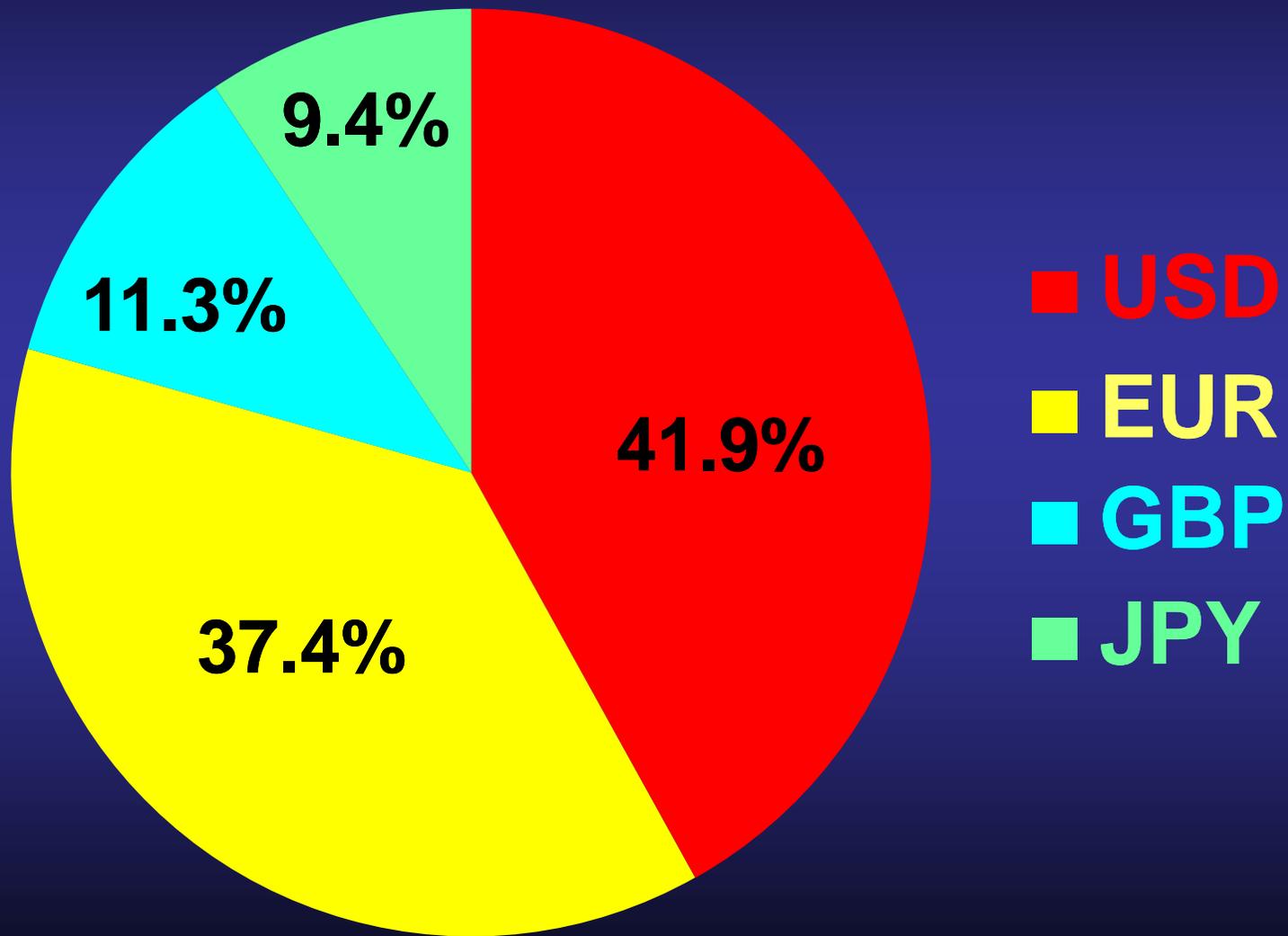
Exchange Rate SDR – USD



Source: Bloomberg

SDR as a Reserve Currency

SDR – Currency Basket



Zhou Xiaochuan's Proposal (1)

Zhou proposed the following steps to broaden the SDR's use can fully satisfy member countries' demand for a reserve currency:

- Set up a settlement system between the SDR and other currencies so it can be widely accepted in global trade and financial transactions
- Currently, the SDR is largely an artificial unit used by governments and international institutions
- Actively promote the use of the SDR in trade, commodities pricing, investment and corporate bookkeeping

Zhou Xiaochuan's Proposal (2)

- **Create financial assets denominated in SDRs to increase its appeal**
- **The introduction of SDR-denominated securities**
- **Further improve the valuation and allocation of the SDR**
- **The basket of currencies forming the basis for SDR valuation should be expanded to include currencies of all major economies**
- **IMF, with its universal membership and mandate to maintain monetary and financial stability, had a natural advantage to act as the manager of its members countries' reserves in the form of the SDR.**

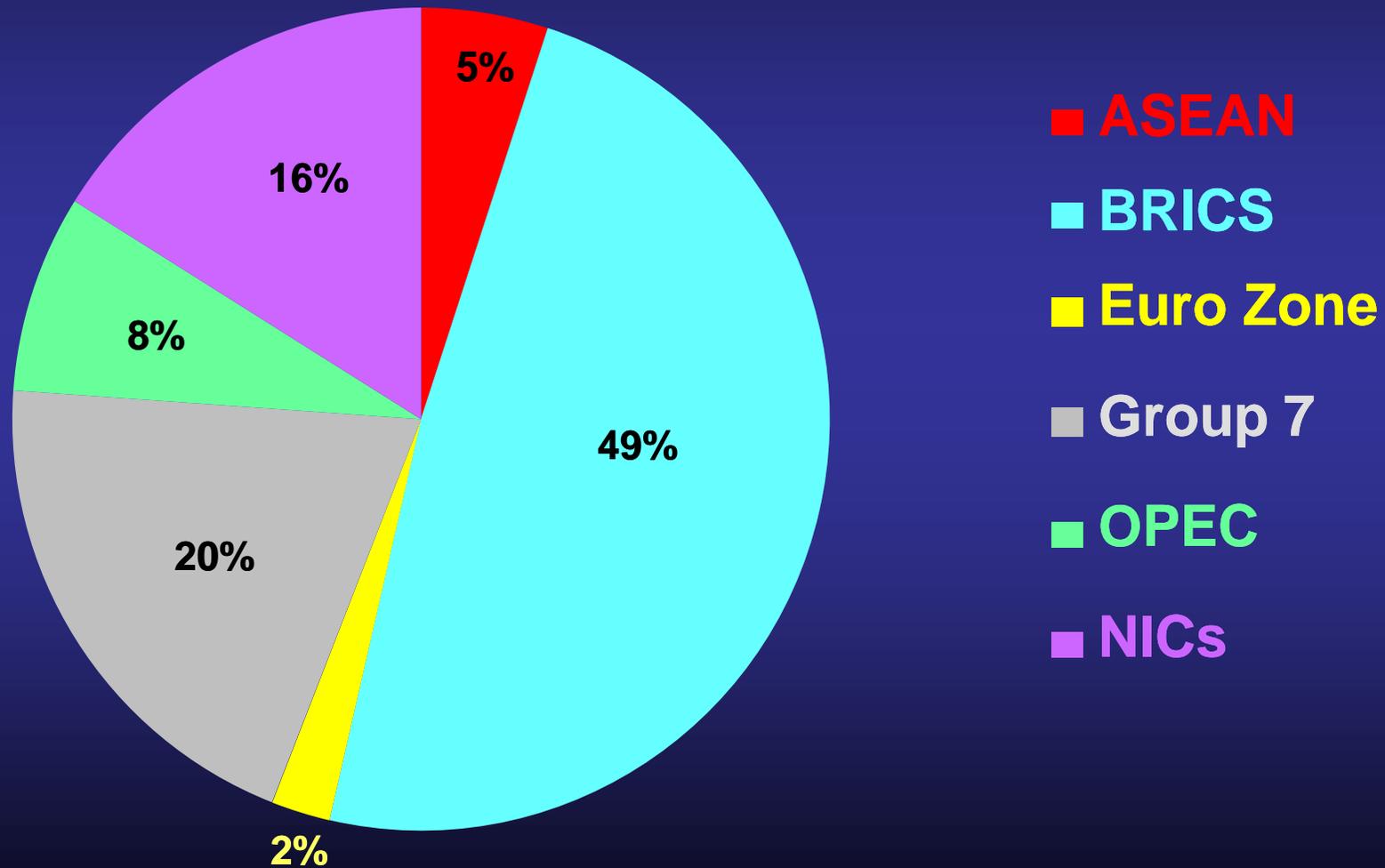
Some Open Issues with SDR

Giving a greater role to the SDR would **require significant investments by governments over an extended period:**

- governments need to create a liquid market in SDRs (for example, by issuing SDR-denominated bonds) – **but who would be on the demand side of the market?**
- governments need to create an SDR-based foreign exchange market (for example, by enabling the IMF to act as a market maker)
- the IMF would have to be able to issue additional SDRs in periods of shortage

Future International Monetary System

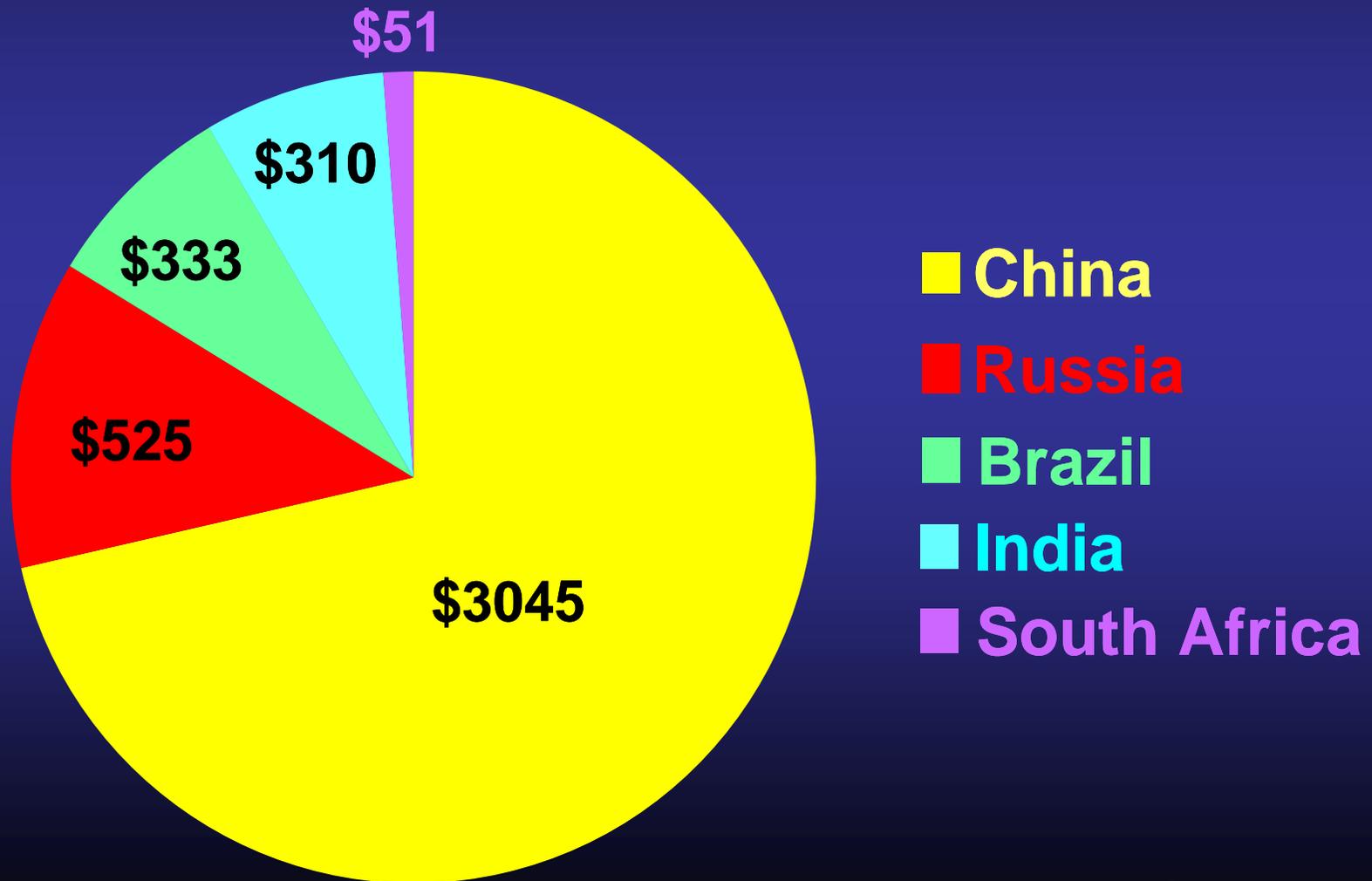
Foreign Exchange Reserves – 2009



Source: Bloomberg

BRICS Foreign Exchange Reserves – April/May 2011

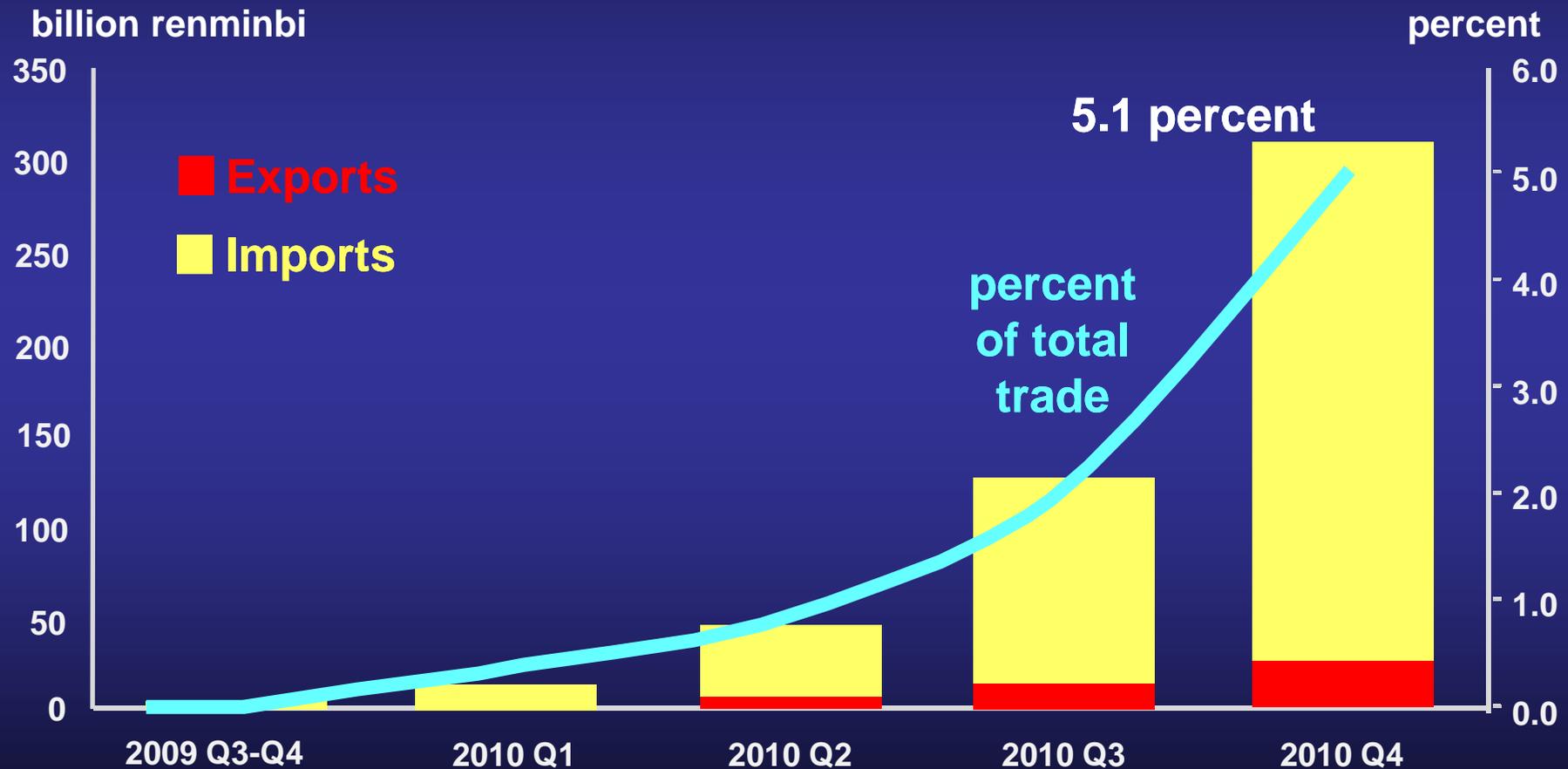
(in billion USD)



Source: IMF

Use of the Renminbi in Trade Settlement

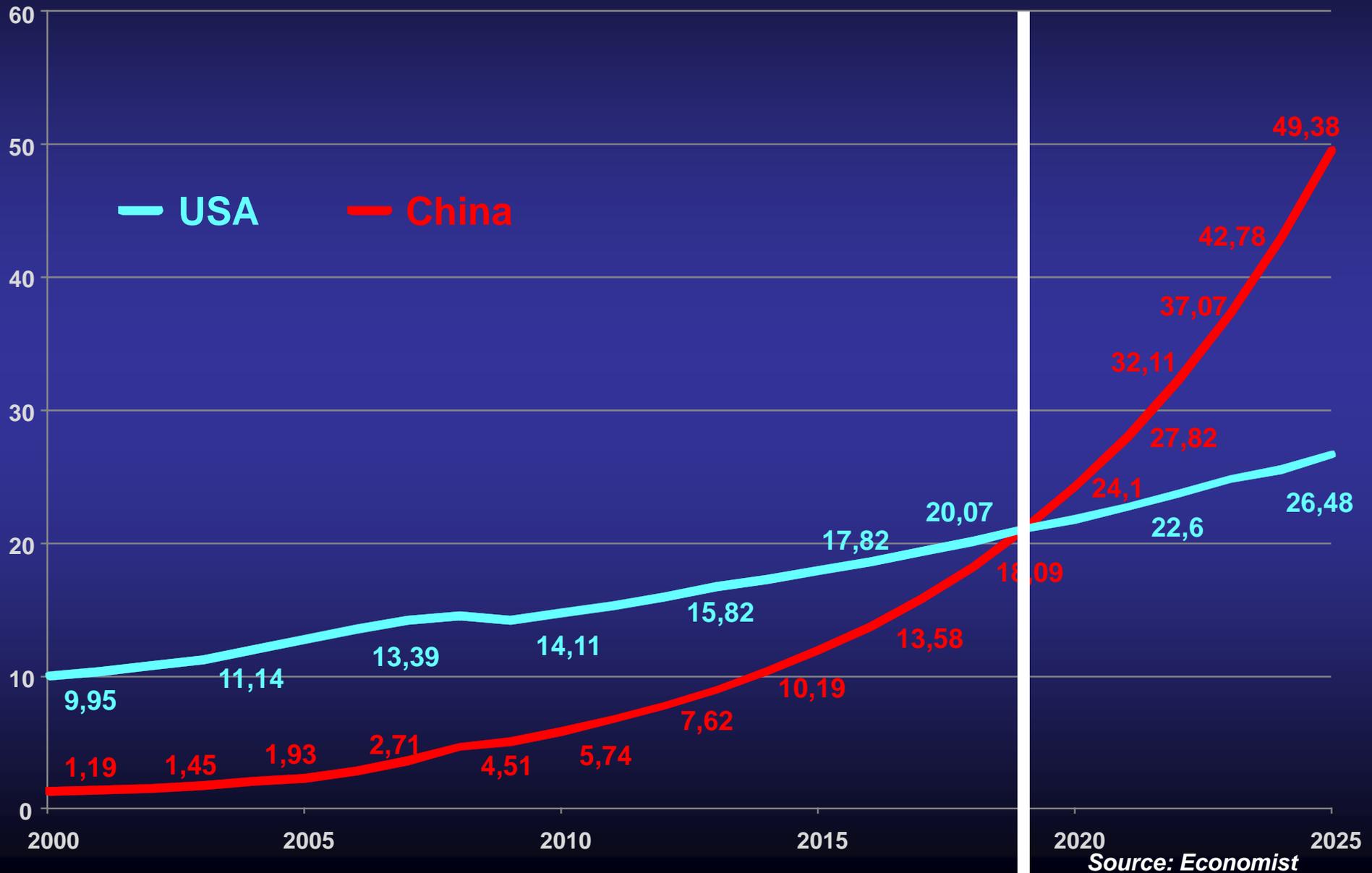
Cross border trade settlements in renminbi



China's total exports 2010: \$1.75 trillion
China's total imports 2010: \$1.52 trillion

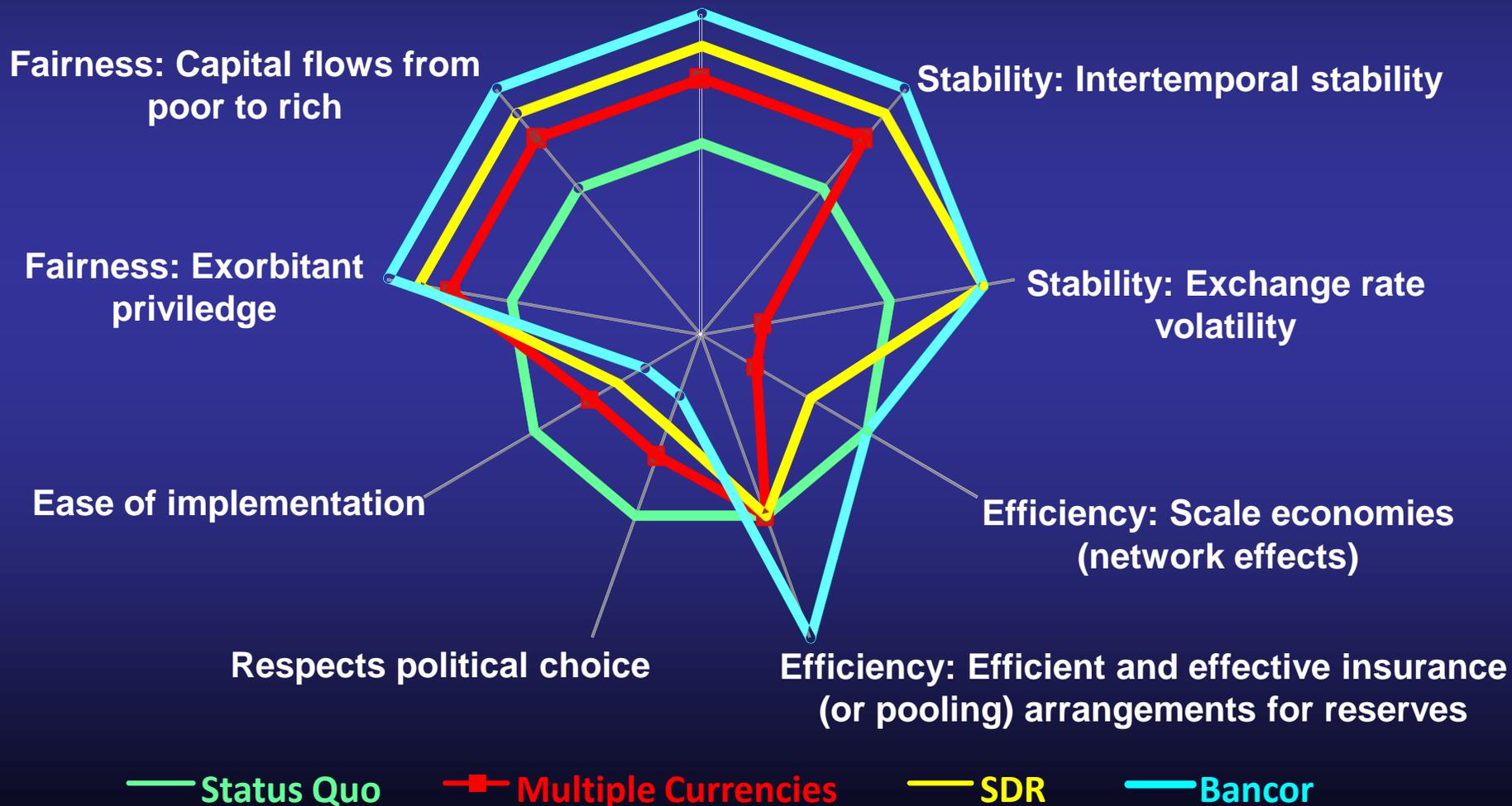
Source: World Bank

When will China overtake the USA?



Features of Alternative International Monetary and Reserve Systems

Stability: Efficient adjustment mechanisms at international level (e.g “n-1” problem)



Multipolar Monetary System



21st century

dollar

euro

renminbi

Future of the International Monetary System

- The long-run goal is a **Global Currency**
- As Paul Volcker (1987) puts it, the global economy needs a global currency
- **The problem is to devise a way to achieve it**

Global Single Reserve Currency

Richard Cooper 1985

“

**National level monetary system
insufficient in an age of globalization of
communication, transport, technology,
trade, corporate strategy, banking and
investment.**

”

Mundell 2002

“

The benefits from a world currency would be enormous. Prices all over the world would be dominated in the same unit and would be kept equal in different parts of the world to the extent that the law of one price was allowed to work itself out. Apart from tariffs and controls, trade between countries would be as easy as it is between the states of the United States. It would lead to an enormous increase in the gains from trade and real incomes of all countries including the United States.

”

Mundell's Proposal

- A single unit for quoting prices
- A common unit for denominating debts
- A common rate of inflation for participating countries
- A common interest rate on risk-free assets
- A global business cycle

Stiglitz 2006

“

Adoption of SDRs as a reserve currency by the national central banks could pave the way for the eventual creation of a *single world currency.*

”

Conclusion

- USD will continue to serve as a global reserve currency
- Most likely euro will increase its role as a reserve currency
- National currencies of EM countries will play a critical role in the future international monetary system
- Creation of multiple currencies system will be needed
- Final goal is a single global currency

Thank you for your attention



