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The problems of the modern world monetary system

The global monetary system has evolved in several successive stages. Each of them is characterized first of all by a definite form of global reserve assets. These reserve assets provide the turnover of all world trade and are a universal means of payment, savings and measure of value. At different stages of the functioning of the world monetary system the role of money carried gold and national currencies of some developed countries of the West. These currencies were recognized as a standby, because monetary gold reserves of the world were nominated in them. Moreover, the value of international contracts is determined with the use of reserve currencies, Reserve currencies are the tool of currency interventions and the basis of monetary and exchange rate policies of many countries. [1] Modern monetary system is characterized by instability of the exchange rate of the main reserve currency – the US dollar.

Key words: world monetary system, Jamaican currency system, problems of reformation, instability of monetary system.

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Қазіргі әлемдік валюта- қаржылық жүйесінің мәселелері

Қазіргі әлемдік валюта-қаржылық жүйесі бірнеше сатыларды өтіп дамыған. Әр сатысы ең алдымен әлемдік резерв активтердің формасымен ерекшеленді. Бұл әлемдік резерв активтер бүкіл әлемдік сауда айналымын қамтамасыз еткен және де әлемдік төлем, сақтау құралы, құнның мөлшерлемесі болып табылған. Валюта жүйесінің әр түрлі даму сатыларда әлемдік ақша рөлін алтын мен бірнеше дамыған елдердің ұлттық валюталары атқарған. Осындай валюталар резервтік болып саналған өйткені олардың көмегімен бүкіл елдердің алтынвалюталық резервтер саналған. Резервтік валюталар валюталық интервенциялардың инструменті болып саналады және де барлық елдердің бағамдық және монетарлық саясатының негізі болып табылады.[1] Қазіргі әлемдік валюта жүйесі негізгі валютаның валюталық бағамының тұрақсыздығымен ерекшеленеді.

Түйін сөздер: әлемдік валюта жүйесі, Ямайка валюта жүйесі, реформалау мәселелері, валюта жүйесінің тұрақсыздылығы.

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Проблемы современной ми- ровой валютно-финансовой системы

Глобальная валютно-финансовая система развивалась в несколько последовательных этапов. Каждый из них характеризовался прежде всего формой резервных мировых активов, существовавшей на том или ином этапе. Эти резервные активы обеспечивали оборот всей мировой торговли и являлись всеобщим средством платежа, накопления и мерой стоимости. На разных стадиях функционирования валютной системы роль мировых денег выполняли золото, а также национальные валюты ряда развитых стран Запада. Такие валюты признавались в качестве резервных, т.к. именно в них номинировались золотовалютные резервы стран мира. Более того, с использованием резервных валют определяется стоимость международных контрактов, в них выражается основная масса мировых финансовых активов. Резервные валюты являются инструментом валютных интервенций и основой монетарной и курсовой политики многих стран [1]. Современная валютная система отличается нестабильностью валютного курса основной резервной валюты – доллара США.

Ключевые слова: мировая валютная система, Ямайка валютная система, проблемы реформирования, нестабильность валютной системы.

**THE PROBLEMS OF THE
MODERN WORLD
MONETARY SYSTEM****Introduction**

Efficiency, stability and specificity of functioning of the world monetary system is largely determined by the degree of compliance with the structure of the world economy. Also, the stability of the global monetary system depends on how objectively and clearly the world's money carry out their functions. Historical analysis of the global monetary system development has shown that a change in the structure of the world economy and the establishment of a new balance of power in the world causes the modification or complete replacement of old monetary mechanisms. [2]

Main body

Jamaican currency system has been subject to serious tests during the financial crisis, which revealed the inability of modern monetary system to ensure the stability of the global monetary relations. The basic principles of Jamaican currency system, which were fixed by the Jamaica agreement in 1976, expressed the interests of the leading developed countries, primarily the United States. The current economic situation, which assumes globalization, integration, multi-polar world, and as a consequence, the emergence of new currency-contenders for the role of global reserve assets, has put forward new requirements for the monetary system. [3] In this regard, the problems of world monetary system conversion became relevant. Moreover, these problems came out of academia and became the focus of attention of presidents and prime ministers of several countries and international economic forum «Group of 20», dedicated to the development of common efforts to overcome the global financial and economic crisis. [4]

In order to highlight the modern monetary system problems, scientists distinguish its features: [4]

1) The first and main feature of the Jamaican currency system is a fundamental change of the global currency standard. From 1976-1978 SDR currency unit was used as the foundation of the world monetary. It served as the prototype of a supranational world currency. The notional value of the SDR depends on the weighted average cost of the world's currencies in the SDR basket. Since the beginning of the use of the SDR and until now the composition of the SDR basket has been reduced from 16 to 4 currencies. [4]

However, the largest weight in the basket belongs to the US dollar (currently 41.73%). [5] This fact means that dollar still performs the role of world currency standard. But lately, it is appeared the tendency for increasing of currencies' number, which contend for the role of the world currencies. These include the euro with a share of 30.93% of SDR currency basket. [5] And on October 1, 2016, the SDR basket will include the Chinese yuan with a share of 10.92%. [5] Thus the global currency system is developing in the direction of forming the multi-currency standard, in which not only dollar but some other currencies are willing to perform the role of world currency.

2) The second feature of the Jamaican currency system lies in the fact that there was a legal renunciation of the use of gold as a global standard. But gold continued to remain the world's reserve asset and was a solely means of payment in cases where the application of the banknote was not possible due to various reasons. Thus it was formed the discrepancy in the roles, performed by gold: *de – jure* it has ceased to act as a global standard, *de – facto* – continued to be used as a global reserve asset and a special means of payment. [4]

3) The third and important feature – the transition from the regime of fixed exchange rates to floating exchange rate regime. [4]

4) The IMF continued to perform a role of the main institutions that regulate international monetary relations. However, there was a need to strengthen the IMF's role in ensuring the stability of the world monetary and financial relations. The IMF in common with the World Bank had to develop an early warning system for crises in the economy. [4]

Thus the Jamaican currency system has a number of features, which demonstrate a certain continuity with the Bretton Woods monetary system. In particular, dollar standard has actually preserved in the SDR, gold lost its legal status as a world standard, but in fact continues to be used as a global reserve asset and a special means of payment. Converters of the Breton-Woods monetary system assumed it had to be more flexible considering changes in the economy. It was assumed that the new monetary system will coordinate the instability of the balance of payments, will correct exchange rates, also will effectively manage the international monetary liquidity in view of its elements – the official gold and foreign exchange reserves of the country, their reserve position in the IMF, SDR account in the Central Bank. In a globalized economy and in a period of fundamental changes in its global structure, the basic principles of Jamaican currency system came

to a discrepancy with the new challenges faced by the modern monetary system. [4]

The current world monetary system is characterized by unstable exchange rate of the world currency -the US dollar [2] The instability of foreign exchange markets was a consequence of the global structural rearrangements in the global economy, which led to an increase of trade and investment imbalances [1] The uncontrolled emission of dollars in the Euro-dollar markets has led to the market overflowed with unsecured money supply. [2] In short, the key shortcoming of the current monetary system is the unreliability of the dollar as a global reserve asset.

All world currencies are national, except for the euro, which is a collective. The unlimited emission formed an unsecured money supply, which led to the instability of exchange rates of world currencies. Due to the right of unlimited emission countries – issuers, the United States and Europe, were able to finance their needs by issuing banknotes. Unlimited emission leads to currency depreciation, increase in sovereign debt and, as a consequence, it is impossible to use the currency as the world one. [6] There is a prerequisite for the reform of the global monetary system.

According to some economists, the transformation of the Jamaican currency system consists in a real transition to a multicurrency basis in international payments, international reserves and international loans. Further development of the world monetary system is expected to be accompanied by an increase of the involvement of countries in the global economy.

At various times, experts discussed various options for converting Jamaican currency system:

- 1) Resumption of the gold standard
- 2) Introduction of new universal equivalents, such as:
 - the basket of precious metals
 - quantum of energy (energy basket)
 - food basket
 - commodity basket

Nevertheless, the use of any kind of equivalent assumes its price correlation with this or that currency but in the current world market conditions it is impossible. In addition, the ever-growing needs of the economy, the conditions of extended reproduction imply a continuous increase of the money supply, and at the same time there will be a need for constant increase of equivalent supply, which in its turn will inevitably lead to its deficiency. [7] Meanwhile renewable equivalents, such as for example food basket have the disadvantage associated with shelf life. Therefore, search for options of an ade-

quate reform of the global monetary system should be implemented in an alternative way. [8]

In current monetary system there is a tendency to shift from monocurrency standard to multicurrency one. The current crisis in the global economy will accelerate this transition. It revealed the dual nature of the US dollar as the national currency and as a world currency. The dollar has ceased to function as a store of value, forming higher risk of investing (increased exchange rate fluctuations, market risk) compared with investing in commodity stocks. The process of correlation of the dollar exchange rate with other currencies' exchange rates is due to the US interests and doesn't fully take into account the interests of the global economy and world financial markets. It became clear that a single national currency can't cope with the function of a world currency in the conditions of economic globalization. [9]

The most appropriate solution is to form a multicurrency standard, the trend which has developed as a result of the transition from monocentrism to polycentrism. The transition to a multi-currency standard is to create three centers of power in the world: the US, Japan and EU, as well as the emergence of new major players on the world stage: China, India, Brazil, Russia. It is assumed that in the new world monetary system the dollar and the euro will retain the status of world currencies, it is also possible to save a high proportion of the pound sterling and the yen. However, it is impossible not to take into account the fact that in the world today there are more than 100 regional economic unions, using regional currencies in the calculations, or developing projects of their introduction. Many countries are seeking to shield themselves from the risks of the dollar exchange rate fluctuations and they try to build a multipolar currency world. [10]

One of the main directions of reforming the modern monetary system may be the formation of currency areas. To form currency areas, it is necessary to activate the process of regional integration with the subsequent use of the regional convertible currency. [9]

Many countries are discussing the problem of the introduction of regional currencies. The United States, Canada and Mexico are considering the introduction of collective currency «Amero.» A special feature of this project is the possible rejection of the dollar, which can cause dollar's depreciation. Moreover, the United Kingdom, Australia, New Zealand can also become an issuers of currency «Amero». Such currency, like all collective currencies will not be able to perform the reserve function adequately, because actually questions of its emission remain

under the US control. [6] The union of six Persian Gulf states decided to introduce a single currency «kalidzhi» or «Dinar of Gulf» from 2010. The provision of this currency will be a large amount of energy production and high volumes of international trade. But at the same time countries retain the right to use their national currencies.

Countries of Asia and the Pacific plan to introduce a single currency ACU, but exact terms of its introduction are not determined yet. Latin American countries are also working to create a regional currency. African countries such as South Africa, Namibia, Swaziland, Lesotho and Botswana are also discussing the introduction of a single reserve currency. The extension of the Australian dollar in New Zealand, Papua New Guinea led to increased interest in the introduction of a common currency for the listed countries. Thus, the global financial crisis has increased the importance of issues of regional monetary integration. [10]

Such currency unions may be perspective as the yuan or yen currency area (China, Japan, ASEAN and other countries of the Asia-Pacific region); currency area of Latin America on the basis of countries – participants of the MERCOSUR (Brazil, Argentina, Paraguay, Uruguay, Venezuela), currency area of «gold dinar» – the Arab countries of the Middle East and other Muslim countries (some 55 member countries of the Islamic Development Bank). The emergence and development of regional freely traded currencies can be the key to the stability of the global monetary system.

In addition, experts are considering seven options for reform of the global monetary system: the gold standard; single currency system based on the dollar; double-currency system based on the dollar and the euro; multicurrency system based on a large number of major reserve currencies; system, which implies the creation of a single world reserve currency, which acts as special drawing rights; system based on regional currencies and regional emission centers.

In modern conditions of the monetary system's development, the most likely option for a single reserve currency reform is the development of special drawing rights. The advantage of this system is that it is supported by China. The chairman of Bank of China Zhou Xiaochuan said that the Special Drawing Rights should replace the dollar as world reserve currency. [11]

This problem was highlighted in the report of the United Nations Conference on Trade and Development. It contained a strong statement about the need to review the role of the dollar as world reserve cur-

rency due to the fact that the modern monetary system is inefficient, inhibits the development of the economy. In the report it was proposed to form a new system governing the exchange rates and instructing central banks to make interventions in order to weaken or strengthen the national currency. [12]

According to the UN expert commission the world's reserve currency will contribute to the stability of the global monetary system and will mitigate the deflationary impact of large reserve accumulations, which are necessary for the preservation of stability in the crisis period. According to the Nobel laureate Joseph Stiglitz, a mechanism of assessment of a new currency is extremely simple and is based on the calculation of weighted average rates of world currencies. [9]

On this issue, one of the first proposals was made by the President of Kazakhstan Nursultan Nazarbayev in his article «The Fifth Way». The idea is to consolidate the efforts of nearby countries on the formation of a single supranational payment unit

of the new class. The result should be a transition from the old currency units, which evaluated the value of assets only approximately to fundamentally new currency units, aimed at a realistic assessment of the value of goods and services. [13]

Conclusion

Thus, the development direction of the global monetary system towards monetary regionalization expresses a tendency toward multipolarity, which is the result of monetary integration and macroeconomic interrelation. These transformations aimed at creating an effective, fair, rational and predictable currency system. [14]

From the above it can be concluded that the multi-currency system and multicurrency standard – are the real prospect of a future monetary system. Integration of currencies and their subsequent internationalization – a complicated and labor-intensive process that requires in-depth analysis and comprehensive coverage. But the changes taking place will not stop, and the new picture of the world is not far off.

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