

WORLD ECONOMY AND INTERNATIONAL ECONOMIC RELATIONS

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WORLD CURRENCIES IN THE GLOBAL ECONOMY: MODERN ROLE AND FUTURE TRENDS

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The global financial crisis has shown the extent to which each country is integrated into the global financial system, as well as the degree of its dependence on the external factors.

Ukraine is now a part of the world financial system, it is responding to the general state of the world monetary system and is increasingly dependent on the external factors. The main problems of the world system as a whole are determined by the contradictions between its basic principles and the realities of the modern monetary and financial world.

In the aftermath of the crisis of 1997–1998, the International Monetary Fund (IMF) and the world financial elite have aroused controversy over the existing principles of the world monetary system. Questions were raised about the need for reforming the global financial architecture. Crises of the twentieth century were local by their nature, so nobody considered the seriousness of the problems of the monetary and financial systems, caused by globalization processes occurring in the world economy. Globalization is an objective process. The pace of the countries involvement in this process is quite significant. At the same time, globalization has different effects on countries, depending on their economic development and the degree of openness of their economies.

The currencies of the world play different roles in the global economy. From time to time, new currencies will emerge, claiming the role of the world ones. The world monetary system is constantly under development, which provides the necessity and urgency of studies into the changes taking place in it.

A number of foreign and domestic scientists devoted their works to the study of the peculiarities of functioning of the world monetary system and the role of different currencies in the global economy. Thus, Philipp Hartmann [1], Menzie Chinn and Jeffrey Frankel [3], Halyna Nakonieczna-Kisiel considered mainly the currency competition between the US dollar and the euro on foreign exchange markets. Peter Kenen [4] paid attention and assessed the prospects for the US dollar as International Currency. Lidiya Krasavina [2] considered the Russian rouble as the world currency. Inna Kudryashova [8] and Pieter Van de Koolwijk [11] paid attention to the organizational and institutional conditions of main currencies international use.

The paper is aimed at investigating the role of world currencies in the global economy and identifying future trends in the development of the world financial system.

Results. The first national currency used outside the issuer country was the Athenian silver drachma, which in the 5th century BC was used in foreign trade payments not only by Greece itself, but also by the countries of Asia, Northern Europe and India [1]. The emergence and functioning of international currencies is based on the need for private sector entities and states to settle foreign trade transactions. Since it was necessary to buy the currency of the exporting country to pay for the supply of goods, the importer needed to

find a seller of such currency, which was quite problematic while exporting from a country with a small volume of foreign trade operations. In such cases, the use of any one or more national currencies, which were relatively widely used in non-resident trade transactions and therefore acted as international ones, greatly simplified the payments.

An increase in the international investments also caused the need for international currencies. To be invested in the domestic market, funds that came from abroad in foreign currency first had to be sold in exchange for national funds, which required appropriate demand. Implementation of such a conversion agreement could be difficult if the country importing the capital did not have a business entity that needed the currency to pay off its financial obligations or pay for imports. The use of international currencies has helped accelerate investment agreements and reduce the costs of their implementation [1].

The gradual growth of the world's economic entities, and an increase in the volume of transactions between them, have contributed to the formation of international currencies, which can be defined as a variety of international monetary units that perform the functions of means of settlement, payment and accumulation around the world. These include monetary units that are defined by the International Monetary Fund (IMF) as freely used and are therefore included in the Special Drawing Right (SDR) currency basket [1, 2, 3, 4]. In doing so, the IMF defines freely used currency as the currency that is actually widely used in payments under international agreements and traded on major foreign exchange markets on a large scale. The IMF has compiled the list of world currencies in 1980. It has been changed twice since then. In 1999, the euro replaced the German mark and the French franc in the currency basket, which in 1981-1998 consisted of five currencies [5]. Since October 2016, after the incorporation of the national currency of the PRC, the SDR basket again consists of five currencies: the US dollar, euro, pound sterling, Japanese yen and yuan [6].

It should be noted that the internationalization of individual national currencies is possible only under certain conditions, which contribute to creating demand for them by non-residents, and conducting various transactions paid by them. However, achieving the status of the world currency from the legal point of view, in practice is not always manifested by its active use in the world, which can be a consequence of various factors that determine the intensity of its international use within a single monetary function.

The world currency is a means of settlement in the private sector if it is used in the sphere of international trade, setting prices for goods and services in foreign trade contracts, nominating financial instruments in international agreements, and in determining labor prices [4].

The choice of the currency for payments in primary commodities trading is mainly determined by the existing practice of international commodity exchange. Thus, the price in the rubber trade is set in GBP, and the price for oil, copper, wheat, etc. in the US dollars.

In the finished goods trade between developed countries, foreign trade bills are mostly in the currency of the exporting country, sometimes in the currency of the importing country, and only in some cases in the currency of the third countries. The exchange of the same goods between developed countries and developing ones is usually estimated in the currency of the producer country or in the currency of any third country, and between developing countries – mainly in the currency of the third countries [6].

It should be noted that the main factors that determine the choice of the currency for payments under international trade agreements are the volume of production of the issuing country / region, the regime and stability of its exchange rate, operating costs (the difference between buying and selling rates), as well as international experience in currency payments. In this case, the lower the operating costs of transactions with a certain currency are, the more often it is used as the currency of international payments, which in turn helps to reduce the costs of its use [6].

The United States remains the largest producer in the world (Table 1) [7].

In 2016 the US accounted for almost 25% of the world production. Established in 1999, the euro area is a very serious competitor of the United States in terms of the share in the gross world product. In addition, this indicator has significantly increased in China over the last decade: in 2015 it was already on par with the euro area. Although the contribution of Japan and the United Kingdom to the world GDP has declined, they are still ranked the 4th and the 5th in the world, only following three other world currency issuers.

Since the end of the Second World War, the US dollar has become actively used in the international payments. This was largely explained by the absence of any currency restrictions. Full convertibility of the currencies of the Western European countries, which eventually entered the euro area, was achieved in the early 1960s. Following the abolition of currency restrictions in the late 1970s in Japan, the yen also became a freely convertible currency [8]. By the time the Chinese yuan/renminbi (RMB) officially achieved the world currency status in 2016 its convertibility was restricted in terms of capital transactions, although controls on

capital transactions in China were selectively abolished. The country authorities are only planning to significantly increase the convertibility of the RMB by 2020 [9].

Table 1

Share of the world currency issuers in the world GDP in 1981–2016, %

Year	The USA	Germany	France	Euro area	The United Kingdom	Japan	China
1981	25,7	6,4	4,9	-	4,3	9,7	2,3
1991	25,8	7,7	5,3	-	4,7	14,8	1,7
2001	32,1	x	x	19,8	4,8	12,9	4,0
2011	21,3	x	x	18,6	3,6	8,4	10,3
2016	24,4	x	x	15,5	3,4	6,4	14,9

The exchange rate regime of the US dollar, euro, pound sterling and Japanese yen is freely floating, which does not exclude the possibility of monetary regulators interfering with the pricing mechanism in the currency market. With the world's largest reserve assets, their issuers have to smooth out significant fluctuations in national currencies rates: in 2000-2002 in the euro area, in 2009-2012 in Japan.

Unlike the US dollar, the euro, the pound sterling and the Japanese yen, the Chinese yuan rate is pegged to the US dollar, meaning that the price of the Chinese national currency is not determined by the market but by the People's Bank of China, which sets rigid limits for possible fluctuations. Since March 2014, this corridor has been expanded from 1% to 2%. The previous expansion occurred in April 2012, when the range was fixed at 1% instead of the previous 0.5%.

In 2015, there showed the largest since 1994 a one-day decline of the Chinese yuan by 1.9%. Although this change is significant in relation to the yuan, the overall current exchange rate regime in the PRC does not provide for dramatic changes [10].

These factors contributed to the spread of world currencies in the international payments. In 1980, the share of the US dollar, the German mark, the French franc, the pound sterling, and the Japanese yen in the international payments was 84.5%. Most international payments were made in the US dollar. In 1980, it accounted for 56.1%, in 1992 – 47.8%, and in 2003 – 73.8% of all payments in the world, with the exception of the euro area countries payments [11]. In 2007, the dollar held key positions as a means of settlement in the private sector: the United States – 90% in import bills, Asia – approximately 80% on exports and 76% on imports, Africa – 75% on exports, Canada – 70% on exports, the euro area under agreements with non-EU partners – almost 56% on imports [12].

Prior to the introduction of the single European currency, a considerable part of the payments under the world foreign trade transactions were also made in the German mark and the French franc (respectively 15, 3% and 6.3% in 1992). Since the advent of the euro, its role as a currency of payments has gradually increased. In 2003, the euro accounted for 4.1% of the world's accounts (excluding euro area countries). At the same time, the euro accounted for 57.3% in the EU trade (the US dollar accounted for 25.3%), and 40.6% in trade of other European countries (26.1% in the US dollar). In 2007, in trade between the euro area and the EU countries which did not belong to it, approximately 57% of export invoices and 51% of import invoices were denominated in euro. The single European currency was actively used in foreign trade by non-euro area countries - almost 59% of their export invoices and 57% of import invoices were denominated in euro. In addition, almost 53% of invoices on African countries' import agreements were denominated in euro, which was explained by the close economic ties between the former colonies and their European metropolises [12].

The Japanese yen and the pound sterling are much less used internationally. Thus, in 1980, they accounted for 2.1% and 6.5% of all invoices issued worldwide. In 1992, the yen's share slightly increased to 4.8% and the pound fell to 5.7% [5]. The Chinese government encourages national companies to use Chinese yuan as a means of settlement under foreign trade transactions, but so far it is only used in trade between China and its trading partners.

Therefore, the US dollar remains the main currency used in international payments. The role of the euro and the Chinese yuan in the field of international payments is growing, but rather slowly. This is primarily due to the inertial behavior of the world market players when choosing an international currency unit in the short term [10]. It should be noted that even with all the factors contributing to high international demand for a particular currency, the actual change in the behavior of non-residents and their reorientation to another currency unit take place in the long run.

Thus, in 2012-2016, the dominant part of payments - about 85% – was made in world currencies, of which 42.1% and 31.3% respectively in USD and euro in 2016. Following in terms of value and role currencies are the pound sterling (7.2%) and the Japanese yen (3.4%). During this period, the role of the yuan increased significantly. In 2012 it was in the 20th place among currencies used in international payments, and in 2016 it was already in the 6th position (more than 1.7% of the total volume of cross-border payments) [13].

The world currency can be used both as a payment currency under international trade agreements and as an interim currency when conducting exchange transactions. Since the conversion of one currency to another is rarely quite direct, in this case the world currency is used as an interim one [5, 13]. The extent to which a particular currency is used as an interim currency is determined primarily by operating expenses. An active use of a currency in international payments helps to reduce transaction expenses that occur when conducting transactions with it. No significant changes in the currency structure of conversion transactions have taken place over the last twenty years. Most of them are in US dollars, euros, pounds sterling and Japanese yen. In the late 1980s, 90% of all currency agreements in the world market were made using the US dollar. Its role has hardly changed since the introduction of the single European currency – the euro.

World currencies also act as a means of accumulation if companies of different countries make investments in the form of deposits and purchases of securities denominated in these currencies [5]. The scale of use of any currency in this area is determined by the size and openness of the financial markets of the issuing country, as well as the stability of that currency. At present, in the USA, the euro area, the UK and Japan there are open, free from rigid government regulation, highly developed financial markets that have financial centers of world importance: New York, Frankfurt, London, and Tokyo. This allows non-residents to place their savings in different currency units. However, over the last decade, there have been some changes in the competitive position of individual segments of these financial markets.

The United States has lost its lead in financial market depth. The country's banking sector offers non-residents a less diversified set of assets, as well as less opportunity for global trading and investment transactions in US dollars compared to other world currency issuers. At the same time, there is a significant development of the domestic government bond market in Japan, which has made it deeper in relation not only to the USA but also to the euro area, UK and China. Ratios of the stock market capitalization to GDP in the UK and Japan have also increased. The dynamics of the financial market of China is positive. By 2015, China's banking sector was in line with the level of development of the financial markets of other issuers of modern world currencies. But the Chinese bond market remains relatively closed to non-residents. These changes have affected the scale of the use of the US dollar, euro, pound sterling and Japanese yen as a means of accumulation in the private sector. Thus, in the currency structure of deposits placed with foreign banks, the share of the US national currency decreased significantly, and the share of the European currency exceeded the former total share of the German mark and the French franc, though it did not reach the level of the US dollar.

Thus, the globalization of financial markets has led to the internationalization of currencies, the extent of which depends on such indicators as: GDP of the issuing country, the degree of participation of the country in the world economy, the presence of the world monetary and financial centers, liberality of currency laws, stability of macroeconomic indicators, and absence of deficit in the external payments balance. The interaction of currencies in foreign markets has led to the displacement of some currencies by others not only in foreign markets but also in domestic ones. A stable currency hierarchy has emerged. The leading place was taken by the US dollar. It has left other currencies far behind, serving approximately 80% of the global financial market turnover and about 50% of the global trade turnover. The internationalization of the global financial market and the desire to reduce the cost of currency transactions transformed the US dollar into the world's leading currency.

Conclusion. Thus, over the last decades, there have been some changes in the factors that determine the role of modern world currencies in the global economy. These changes are causing relatively large dynamics in the use of the US dollar, euro, pound sterling, Japanese yen and yuan as a means of settlement, means of payment and means of accumulation. However, private entities in the world economy continue to mainly use the US dollar as the world currency. International demand for the US dollar declined only when used as a means of accumulation, and, on the contrary, international demand for the euro increased, while maintaining the dominant position of the national US currency. Despite the creation of the euro area, the large scale of European currency issue, the depth of the financial market and the stability of the single European currency, the euro has not become an absolute leader in either direction. A similar situation is typical of China, which still maintains restrictions on the use of the national currency in the capital balance of payments operations and the financial market of which is still closed to foreigners.

Monetary functions of the world currencies are interrelated. Therefore, billing for foreign trade transactions in the US dollar contributes to creating high demand for it as the currency of payments under the international trade contracts, the interim currency, as well as while choosing the currency to make investments.

The behavior of the entities of the world economy when choosing an international currency in the short term is inertial. In case the issuer of the dominant currency loses its lead in the global economy, the reorientation of non-resident demand in favor of another currency usually takes place in the long run. In this context, in the absence of a deep crisis in the US economy, further growth in the economic strength of the euro area and China, as well as ensuring full renminbi conversion and cancellation of non-resident restrictions on Chinese financial market operations, the US dollar will dominate in the short term when performing the functions of the world currency.

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національний технічний університет імені Юрія Кондратюка. **Світові валюти в глобальній економіці: сучасна роль та майбутні тренди.** Досліджено роль світових валют у глобальній економіці та визначено основні напрями подальшого розвитку світової валютної системи. Серед світових валют було проаналізовано долар США, євро, британський фунт стерлінгів, японська ієна та китайський юань. Метою статті є дослідження ролі світових валют у глобальній економіці та визначення майбутніх трендів розвитку світової фінансової системи. Україна зараз є активним учасником глобальних економічних процесів, вона реагує на загальний стан світової валютної системи й усе більшою мірою залежить від зовнішніх факторів, що актуалізує необхідність дослідження основних трендів розвитку світової фінансової системи. Виділено причини появи світових валют. Окреслено основні умови, необхідні для інтернаціоналізації національних валют, та фактори, які впливають на вибір валюти для оплати за міжнародними угодами купівлі-продажу. Проаналізовано динаміку зміни ролі світових валют у глобальній економіці. Наголошено, що основною валютою, котра використовується у міжнародних розрахунках, залишається долар США. Роль євро та китайського юаня у сфері міжнародних розрахунків зростає, але досить повільно. Глобалізація фінансових ринків привела до інтернаціоналізації валют, ступінь якої залежить від ряду показників. Взаємодія валют на зовнішніх ринках призвела до витіснення одних валют іншими не тільки на зовнішніх ринках, але й на внутрішніх. Виникла стійка ієрархія валют. Провідне місце посів долар США. Зроблено висновок, що поведінка суб'єктів світового господарства при виборі міжнародної грошової одиниці у короткостроковому періоді є інерційною. У зв'язку з цим, за умови відсутності глибокої кризи в економіці США, американський долар у короткостроковій перспективі буде домінувати при виконанні функцій світової валюти.

Ключові слова: світова валюта, глобальна економіка, світова фінансова система, Міжнародний валютний фонд, валютний курс.

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Bezrukova Nataliia, PhD (Economic Sciences), Associate Professor. **Svichkar Vitalii**, PhD (Economic Sciences), Associate Professor. **Buriak Alyona**, PhD (Economic Sciences). Poltava National Technical Yuri Kondratyuk University. **World currencies in the global economy: modern role and future trends.** The authors examine the role of the world currencies in the global economy and identify the main directions of further development of the world monetary system. Among the world currencies, the US dollar, euro, British pound sterling, Japanese yen and Chinese yuan are analyzed. The purpose of the paper is to investigate the role of the world currencies in the global economy and identify future trends in the development of the world financial system. The authors highlight the causes of the world currencies emergence. The basic conditions necessary for the internationalization of national currencies and the factors that influence the choice of the currency for payments under international trade agreements are outlined. The dynamics of changing the roles of the world currencies in the global economy are analyzed. The authors conclude that the behavior of the world economy when choosing an international currency in the short term is inertial. Against this background, in the absence of a deep crisis in the US economy, the US dollar will dominate the global currencies in the short term.

Keywords: world currency, global economy, world financial system, the International Monetary Fund, exchange rate.

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Безрукова Наталия Валерьевна, кандидат экономических наук, доцент. **Свичкар Виталий Анатольевич**, кандидат экономических наук, доцент. **Буряк Алена Анатольевна**, кандидат экономических наук, старший преподаватель. Полтавский национальный технический университет имени Юрия Кондратюка. **Мировые валюты в глобальной экономике: современная роль и будущие тренды.** Исследована роль мировых валют в глобальной экономике, и определены основные направления дальнейшего развития мировой валютной системы. Среди мировых валют проанализированы доллар США, евро, британский фунт стерлингов, японская иена и китайский юань. Целью работы является исследование роли мировых валют в глобальной экономике и выявление будущих тенденций развития мировой финансовой системы. Освещены причины появления мировых валют. Обозначены основные условия, необходимые для интернационализации национальных валют, и факторы, влияющие на выбор валюты для платежей по международным торговым соглашениям. Проанализирована динамика изменения роли мировых валют в мировой экономике. Сделан вывод, что поведение мировой экономики при выборе международной валюты в краткосрочной перспективе является инерционным. На этом фоне, в отсутствие глубокого кризиса в экономике США, доллар США будет доминировать в мировых валютах в краткосрочной перспективе.

Ключевые слова: мировая валюта, мировая экономика, мировая финансовая система, Международный валютный фонд, обменный курс.