The International Monetary System: Recent Outlook and Developments

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Ideally IMS is

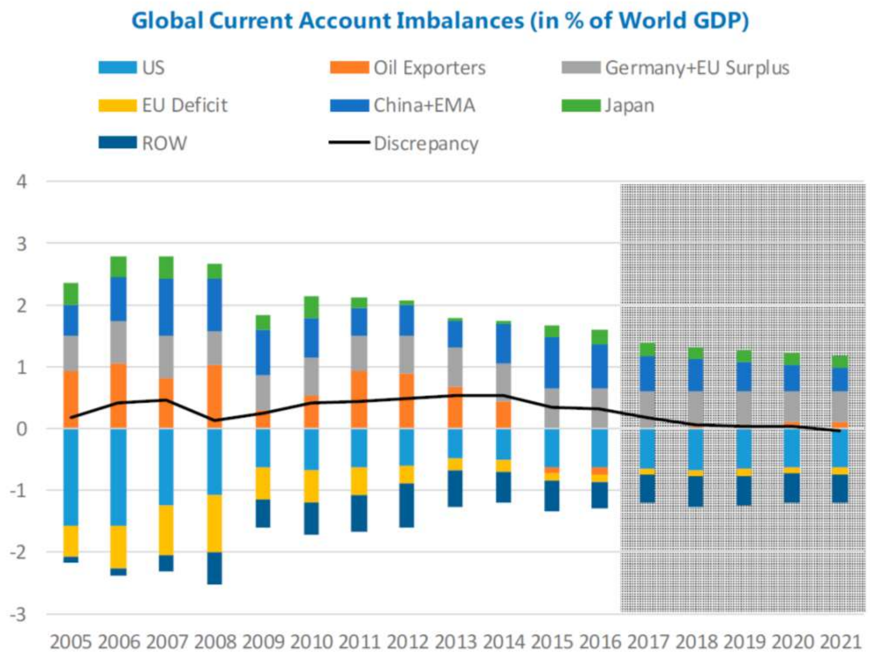
- the glue that binds national economies together. Its role is to lend order and stability to foreign exchange markets, to encourage the elimination of balance-of-payments problems, and to provide access to international credits in the event of disruptive shocks (Eichengreen, 2008)

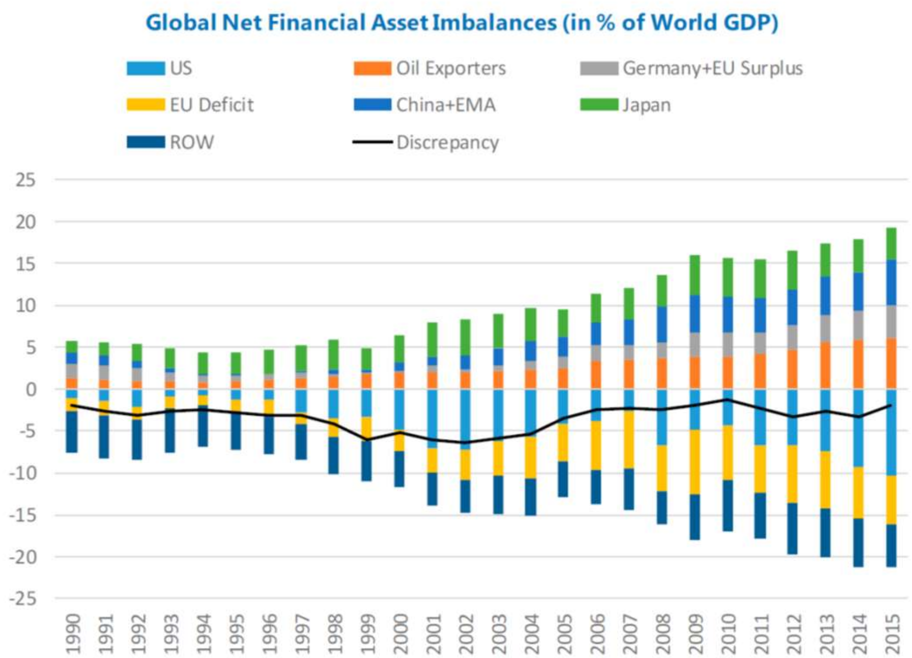
In reality current IMS

- is highly asymmetric and unbalanced
- has very limited adjustment mechanisms
- has regulatory gaps and insufficient global regulation
- has multilayered but skewed global financial safety coverage
- has very few internationalized currencies

- While global financial crisis initiated important international discussions and measures, still very few real changes happened and new challenges appear

Exchange rates play limited role in adjustments





- so adjustments happen through real channels – demand and/or output declines
- in turn, contributing to financial imbalances

Regulatory challenges

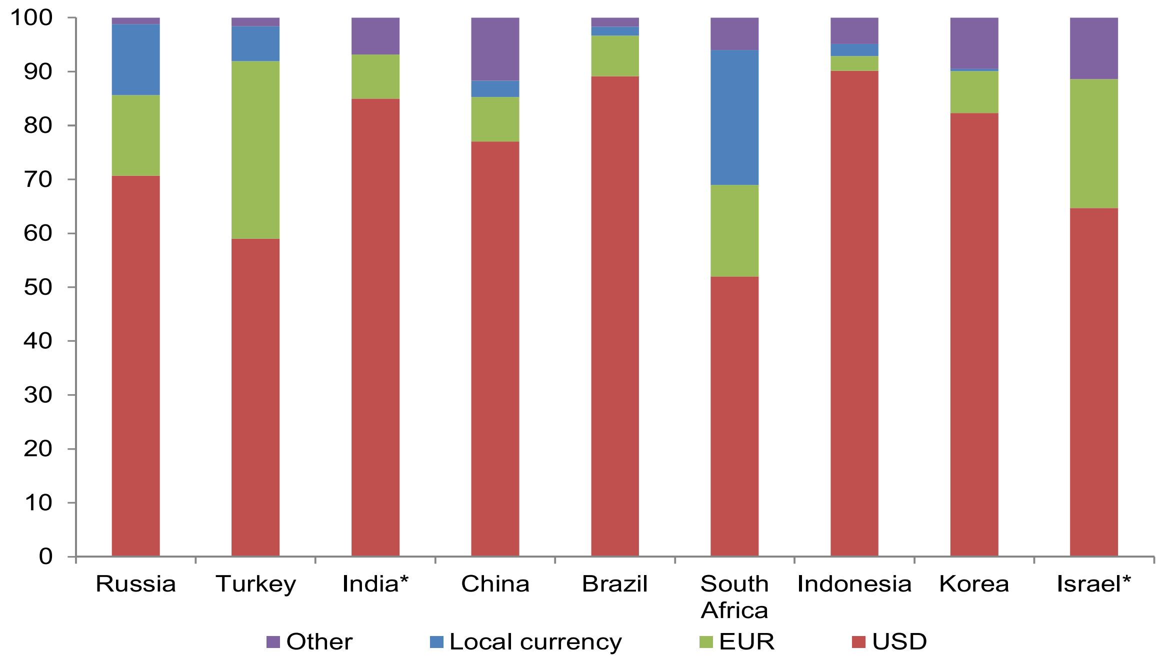
- Local regulation is not enough in a world of massive capital flows
- Trigger spillovers of financial problems across borders
- New developments in virtual currencies emphasize the problem of global financial regulation

While GFSN developed significantly after the crisis

- it does not ensure universal access
- which results in reserve holdings exceeding substantially adequate levels, contributing to insufficiency of adjustment mechanisms and extra costs

Few currencies dominate in international transactions

Foreign trade by settlement currency, %



Which alters the adjustment of trade balances by exchange rates, affecting elasticities of export and import wrt exchange rate

Recent policy trends in US to nationalism initiated “localization” discussions

- Both in developing and developed countries
- The idea is to challenge the position of US dollar in CA transactions
- Is it achievable?
- Will it help to address the challenges of current IMS?

Is “localization” of CA achievable?

- Hardly, at least not to a significant extent
  - voluntary choice by private agents
  - determined by risk consideration, including EX and liquidity risks
- will results in risk premium increasing the costs of CA transactions

Currency matching of export and import portfolios of Russian exporters

	Share of importing firms (%), that pay for import in						Number of firms
Conditional on export in	RUB	EUR	USD	JPY	GBP	OTH	
RUB	**37**	59	53	1	3	4	4086
EUR	23	**82**	49	2	6	6	2773
USD	27	56	**71**	2	5	5	3433
JPY	10	33	51	**62**	10	5	39
GBP	16	80	57	4	**44**	18	68
OTH	39	68	62	5	25	**51**	56

Will localization help addressing the challenges of current IMS?

- No, as it targets one of the outcomes and not the reason
  - CA is private in nature, while regulation, reserve accumulation and exchange rate policies are public
- Private sector decides on settlement currencies
- State intervention in support of “localization” will introduce more distortions in CA
- The solution for localization has to do more with trade liberalization policies