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Features and Factors of the Implementation of the Function of World Money by Reserve Assets in the Modern GMFS

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ABSTRACT

The article analyzes the functional features of the US dollar as a global reserve currency, the factors weakening its position in the global monetary and financial system (GMFS), as well as the directions and trends in the development of the monetary functions of the Russian ruble in international circulation in modern conditions. The **purpose** of the study is to develop conceptual approaches to the analysis of the functions of money in international circulation in new conditions. The **objectives** of the study are to analyze the factors and consequences of the changed qualitative and quantitative characteristics of the use of the US dollar as the "anchor" of the GMFS, as well as to assess the perspectives of the development of monetary functions and the exchange rate mechanism of the Russian ruble. The **research methodology** includes scientific and methodological approaches to the implementation of monetary functions and the exchange rate mechanism of national currencies, analysis of statistical and analytical information of the Bank of Russia, international financial organizations, official reports of government bodies, scientific monographs and publications of Russian and foreign economists, and periodicals. The authors **conclude** that it is advisable for Russian organizations to use rationally trading currency backed primarily by gold and other strategic goods in settlements with interested partners in foreign economic activity.

Keywords: GMFS; international reserves; reserve asset; US dollar; Russian ruble; gold; monetary functions of currency; currency exchange rate mechanism; international payments; global monetary and financial system

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INTRODUCTION

The processes of structural transformation of the global monetary and financial system (further — GMFS) towards polycentrism and regionalization are largely connected to the modifications in recent years of the qualitative and quantitative characteristics of global reserve currencies (primarily the US dollar as the basic reserve asset), including the decline in the reliability of its backing and, consequently, its ability to fully perform monetary functions in international circulation. As noted by the Russian economist L.N. Krasavina, the role of leading national currencies as global money instead of gold necessitates their distinction as an independent object of analysis, as the concept of “world currency” takes on special significance in the context of economic globalization [1].

The destructive impact of economic and geopolitical factors on GMFS is manifested in the distortion of the functions of the US dollar and the euro in international circulation and the weakening of trust in them as global reserve currencies [2–5]. In the new conditions, analyzing the characteristics, factors, and consequences of the changes in the position of the US dollar as an “anchor” of GMFS becomes particularly relevant, as well as assessing the directions of development of monetary functions and the mechanism of exchange rate formation of the Russian ruble.

FEATURES OF THE IMPLEMENTATION OF THE US DOLLAR AS A GLOBAL CURRENCY AND FACTORS REDUCING ITS ROLE IN MODERN GMFS

The success of using a reserve asset as global money is determined by its stability and predictability in fulfilling all the main monetary functions — as a currency for the exchange rates of other monetary units, a means of circulation, a means of payment and settlement, as well as a means of investment and saving. In the current GMFS, a characteristic feature of the US dollar as a global reserve currency is the growing imbalance in its monetary functions. Alongside the preservation of the leading role

of the US dollar in serving as a measure of value for other currencies and as a vehicle currency, there is a noticeable decline in trust towards the American currency. Consequently, its position as an international medium of payment and settlement, as well as an international means of investment and savings, is weakening. The US dollar and the second most important currency, the euro, in international transactions are increasingly being replaced by the Chinese yuan and the currencies of other developing economies, including the Russian ruble. Another important feature and condition for the more reliable performance of a currency as a global money in the new reality is the necessity to transition towards its predominant backing by commodity assets and, to a lesser extent, by financial assets. A special place among high-quality commodity assets is occupied by gold, which organically combines the properties of a commodity as both use value and exchange value. That is precisely why gold, along with global reserve currencies, is included as a universally recognized equivalent of value in the structure of international reserves of central banks in the leading economies of the world [6–10].

The increased distortions in the realization of the U.S. dollar's function as a global currency are due to the growing distrust in it as a world reserve currency, primarily as a result of the exacerbation of the country's debt problem. The gross national debt of the United States increased from 8 533.1 billion dollars at the end of 2005 to 30 887.9 billion dollars at the end of 2022 (an increase of 262%), while the consolidated budget deficit rose from –3.1% to –3.7% of GDP. Key macroeconomic indicators in the U.S. have seriously deteriorated: the growth rate of real GDP, the share of GDP based on purchasing power parity in global GDP, the gross accumulation rate, and inflation rates (see *Table*).

At the beginning of January 2024, the U.S. national debt reached 34 trillion dollars, as noted in the report by Roscongress titled “Key Events — 2024. Geo-economics. Forecasts.

Table

Main Macroeconomic Indicators of the USA in 2005–2022

Indicators	2005	2010	2015	2016	2017	2020	2021	2022
Growth rate of real GDP, %	3.5	2.7	2.7	1.7	2.2	–2.8	5.9	2.1
GDP per capita at constant prices, dollars	50 322.5	50 523.5	54 187.9	54 700.3	55 572.6	55 875.5	59 009.9	60 007.1
The share of GDP by PPP in global GDP, %	19.0	16.7	16.3	16.1	15.9	15.8	15.7	15.5
Cumulative balance, % of GDP	23.4	18.7	21.2	20.6	20.8	21.1	21.1	21.6
Inflation based on the consumer price index, at the end of the period, %	3.7	1.7	0.7	2.2	2.2	1.6	7.4	6.4
Consolidated budget balance, billion dollars	–400.1	–1652.8	–643.0	–817.6	–935.2	–2949.2	–2709.3	–943.7
Consolidated budget balance, % of GDP	–3.1	–11.0	–3.5	–4.4	–4.8	–14.0	–11.6	–3.7
Gross government debt, billion dollars	8 533.1	14 317.7	19 139.5	20 032.9	20 686.6	28 114.8	29 474.1	30 887.9
Gross public debt, % of GDP	65.4	95.1	105.1	107.2	106.2	133.5	126.4	121.3
Current account balance, billion dollars	–749.2	–432.0	–408.5	–396.2	–367.6	–597.1	–831.4	–971.6
Current account balance, % of GDP	–5.7	–2.9	–2.2	–2.1	–1.9	–2.8	–3.6	–3.8

Source: World Economic Outlook Database. URL: <https://www.imf.org/en/Publications/WEO/weo-database> (accessed on 15.01.2024).

Risks”. The authors of the report argue, that the growing U.S. national debt and the annual servicing costs of 1 trillion dollars threaten to destabilize the global financial system.¹ The rapidly growing current account deficit is also having a destructive impact on the position of the U.S. dollar in the global economy, which

increased from –367.6 billion dollars in 2017 to –971.6 billion dollars in 2022 (see *Table*).

According to R. Triffin’s dilemma, when a national currency is used as a global reserve asset, the world economy becomes a hostage to the dynamics of the balance of payments of the country issuing the reserve currency. The significant growing deficit in the current account of the balance of payments of the reserve currency issuing country undermines its status as a stable global asset [11].

¹ The Russian Congress spoke about the main threat to the global economy in 2024. RIA News. 10.01.2024. URL: https://ria.ru/20240110/gosdolg-1920410931.html?utm_source=yxnews&utm_medium=desktop (accessed on 15.01.2024).

The situation in the global economy is being exacerbated by its entry into a recession phase, combined with high inflation rates in most countries. In these conditions, a collision arises in the monetary and financial policies of countries with reserve currencies. On one hand, the U.S. Federal Reserve is compelled to implement a tight monetary policy in order to curb inflation, accelerating the increase in interest rates. From 16 March 2022 to 26 July 2023, the U.S. Federal Reserve raised the federal funds rate 11 times — from 0.25% to 5.5% per annum. Only at the last two meetings of the Federal Reserve on 20 September and 1 November 2023, the interest rate was kept at the same level — 5.5%. On the other hand, the financial authorities in the U.S., alongside restrictive monetary policy measures, are introducing tax incentives for companies and individuals under the Inflation Reduction Act, which came into effect on 1 January 2023, allocating 430 billion dollars for healthcare, combating climate change, and reducing inflation, including 370 billion dollars for clean energy and achieving climate goals.²

The escalation of the U.S. national debt and budget deficit issues, the deterioration of key macroeconomic indicators, the strengthening of external imbalances, and the contradictions in the monetary and financial policy of the Federal Reserve weaken the international position of the U.S. dollar, diminishing its role in fulfilling the function of global currency. There is a blurring of the qualitative and quantitative characteristics of the provision of the U.S. national currency as a global reserve asset. At the same time, the dollar remains the benchmark for the value of other currencies and the primary currency for contract pricing due to its dominant role in market pricing on commodity exchanges. At the same time, competition for the dollar is growing from the currencies of leading developing countries in this function, as

the number of national exchanges utilizing alternative pricing instruments increases. The U.S. dollar still holds a leading position as the currency for denominating transactions in the global financial market. According to the three-year report by the Bank for International Settlements on the state of the global currency market from 2019 to 2022, as of April 2022, the total daily volume of currency transactions amounted to 7.5 trillion dollar, with the share of the U.S. dollar on one side of the transactions remaining virtually unchanged compared to 2019, at 88.5%.³

In other monetary functions, there is a decrease in the share of the U.S. dollar in international circulation. The instability of the dollar's positions in international payments and settlements is increasing, while its role as a global store of value is increasing. According to SWIFT, in February 2022, the share of the U.S. dollar in international transactions decreased by 1.07% compared to January, amounting to 38.85%, only slightly exceeding the share of the euro at 37.79%.⁴ In the future, under the influence of the escalating geopolitical situation, the share of the dollar in interbank settlements increased to 41–42%. However, there is a noticeable weakening of the dollar's role as a store of value due to a reduction in foreign investments in U.S. government bonds and Treasury bills. From the end of 2021 to October 2022, foreign investors reduced their investments in U.S. government debt by 238 billion dollars. The share of the U.S. dollar in the foreign exchange reserves of central banks around the world decreased in 2022 from 7.1 trillion dollars to 6.7 trillion dollars in total volume, or to 55%, marking the lowest level since 1995.⁵

³ Triennial central bank survey of foreign exchange and over-the-counter (OTC) derivatives markets in 2022. 27.10.2022. URL: <https://www.bis.org/statistics/rpfx22.htm> (accessed on 15.01.2024).

⁴ SWIFT reported that the share of the dollar in global transactions decreased to 38.85% in February. 25.03.2022. URL: <https://www.banki.ru/news/lenta/?id=10963556> (accessed on 15.01.2024).

⁵ The dollar's monopoly has begun to crumble. Vzglyad. 28.10.2022. URL: <https://vz.ru/economy/2022/10/28/1184169.html> (accessed on 15.01.2024).

² Biden signed the law to combat inflation. RIA News. 16.08.2022. URL: <https://ria.ru/20220816/zakon-1810114593.html> (accessed on 15.01.2024).

RECONCEPTUALIZATION OF SCIENTIFIC AND METHODOLOGICAL APPROACHES TO THE FUNCTIONAL CHARACTERISTICS OF CURRENCIES AS WORLD MONEY

There is a rethinking of the scientific and methodological approaches to understanding the quality of the provision of world money, its functions, and its role in the global economy due to the negative effects on the stability of GMFS caused by the growing financialization of the global economy, the aggravation of the global debt problem, and the declining trust in the U.S. dollar within the international scientific community and business environment [12–14].

In the papers of representatives from scientific and business circles, a vision is emerging for a new, alternative international trade currency to the dollar, backed by commodities [15–18]. According to Z. Pozsar, a former official of the U.S. Federal Reserve and now a financial strategist at the Swiss bank “Credit Suisse”, in the process of transitioning to a new version of the world currency system, Bretton Woods III, the main function of the future trade currency, backed by gold and a number of strategically important commodities, will be to facilitate international settlements, as opposed to the reserve currency, which also serves the functions of savings and asset diversification [19].

According to B. Eichengreen, an American economist, the only backing for a trade currency can be gold, valued at market prices, while the U.S. dollar is expected to remain the reserve currency in the near future.⁶

According to F. Giustra, a representative of Canadian business circles, a complex global currency system will emerge in the future, where countries that do not join the new GMFS will trade with the United States in the dollar system, while, for example, trading with China

and Russia will be conducted in a trade currency unit backed by gold and other reliable assets [20].

The issue of trust in global currencies has a very important geo-economic and geopolitical dimension. The modern global community is at a complex and contradictory stage of transformation. According to Russian economists V. V. Perskaya and M. A. Eskindarov, Pax Americana (the American world), constructed by the countries of the collective West since the collapse of the socialist bloc and the USSR itself, is facing not so much erosion as de facto destruction [21]. As a result, the destructive impact of economic and geopolitical factors on GMFS and the global economy is intensifying. Foreign economists are also drawing attention to the issue of new challenges in the global economy and trust in the U.S. dollar as the world's currency. Thus, Z. Pozsar in the article “War and Industrial Policy” notes that to contain Russia and China, which challenge the hegemony of the U.S., it is not enough to impose technological sanctions against these countries, as it is impossible to win by merely slowing down progress. In his opinion, to overcome the currently unfolding “Great Crisis of Globalization” and transition to the Bretton Woods Currency System III, the West must make trillion-dollar investments in four types of projects that should have been initiated “yesterday”. They include: (1) rearmament (for the protection of the world order); (2) the return of production previously moved abroad (to circumvent the transport blockade); (3) replenishing stocks and investing in trade (goods); (4) transition to new energy sources (energy transition) [22].

The movement of the U.S. towards increasing the role of the commodity component in supporting the U.S. currency has been marked by the implementation of measures under the Inflation Reduction Act, which has been in effect since 1 January 2023. The law provides for the allocation of hundreds of billions of dollars in tax incentives intended for American car manufacturers and

⁶ The strengthening of China and the ongoing shift away from the dollar: four conditions to become an international currency. InoSMI. 8.07.2022. URL: https://inosmi.ru/20220708/yuan-254910066.html?utm_source=yxnews&utm_medium=desktop (accessed on 15.01.2024).

the development of green energy. Additionally, the volumes of extraction and production of strategic goods — oil and liquefied natural gas — are also increasing annually. In both product categories, the U.S. has reached first place in the world.

DEVELOPMENT OF MONETARY FUNCTIONS AND THE MECHANISM OF EXCHANGE RATE FORMATION OF THE RUSSIAN RUBLE IN INTERNATIONAL CIRCULATION

In the new realities, there are qualitative changes in the implementation of such an important function of the Russian ruble in international circulation as a means of payment and settlement [23]. This is largely due to the transformations in the exchange rate formation of the Russian ruble. Under the influence of geopolitical risks, currency-financial and trade-economic sanctions, the market exchange rate of the dollar to the ruble is distorted, leading to an artificial sharp weakening or strengthening of the Russian currency. Thus, the sharp depreciation of the Russian ruble in March 2022 to 120 rubles per U.S. dollar was followed by a similarly significant strengthening during the period from June to December of the same year, reaching 60 rubles per U.S. dollar.

Under the conditions of a strict sanctions regime, disconnection from the international financial messaging system SWIFT, and restrictions on Russian residents' access to international financial markets, it has become irrational to accumulate excessive export revenues in U.S. dollars and euros in international currency reserves. Moreover, when assessing the factors influencing the exchange rate of the Russian ruble, it is important to consider the predominant role of export-import operations of Russian organizations in this process compared to operations in the international financial market. The predominance of the role and significance of the trade balance in the overall structure of

the balance of payments determines the priority of considering the impact on exchange rate formation of commodity circulation in accordance with the exchange formula $M-G-M$.⁷

During 2022–2023, the process of transforming the currency structure of settlements for foreign trade operations of Russian export-import organizations is actively developing. From February 2022 to March 2023, the monthly volume of export revenues denominated in Chinese yuan increased 53 times (to 7 billion USD), while revenues denominated in U.S. dollars and euros decreased by 58% and 75% (to 11 billion and 4 billion USD), respectively.⁸ At the beginning of 2023, the share of the Russian ruble and the Chinese yuan in export settlements increased to 34% and 16%, respectively, compared to 12% and 0.5% at the beginning of 2022. During the same period, the combined share of the U.S. dollar and the euro decreased from 84% to 48%.⁹

In the future, changes in the currency structure of international settlements and payments in Russian foreign trade will depend on the balance of factors that promote and restrain the use of the yuan and the currencies of other friendly countries. The favorable factors include:

- The growth of distrust in Russia and its trading partner countries towards reserve currencies due to the weakening of their positions in GMFS and sanctions risks;
- The reorientation of the geographical structure of Russia's foreign trade from the West to the East, which entails a corresponding restructuring of the currency structure of payments and settlements;

⁷ In the traditional model of international trade, the priority is given to the exchange scheme based on the $M-G-M$ formula, resulting in income from the transaction in US dollars or euros, which are widely, recognized reserve assets that can subsequently be freely used in trade and financial operations.

⁸ Review of Financial Stability. 2022. No. 2 (21). Bank of Russia. URL: https://www.cbr.ru/Collection/Collection/File/44007/4q_2022_1q_2023.pdf c. 29 (accessed on 15.01.2024).

⁹ Overview of financial market risks. 2023. No. 2(71). Bank of Russia. URL: https://cbr.ru/Collection/Collection/File/46388/ORFR_2023-09.pdf (accessed on 15.01.2024).

- The ability to plan medium-term foreign trade flows in trade with friendly countries using national currencies in calculations;

- The possibility of circumventing sanctions restrictions, including in payments for critical imports.

At the same time, there are limits to the growth of using currencies of friendly countries in mutual settlements:

- The mismatch between the existing payment and settlement infrastructure, the system of correspondent accounts, the transmission of financial messages in national currencies, the mechanisms of currency exchange operations, and the conditions and infrastructure for settlements in the currencies of friendly countries;

- The significant imbalances in the volumes of exports and imports in the trade balance due to the weak development of financial market instruments in the currencies of friendly countries to address these imbalances and to hedge against currency fluctuations;

- The high volatility of the exchange rates of the national currencies of friendly countries.

Given the significant surplus of exports over imports in Russia's foreign trade with China, India, Iran, Turkey, and other friendly countries, substantial excesses of Chinese yuan, Indian rupees, Iranian rials, Turkish lira, and other illiquid currencies are accumulating in the accounts of Russian banks. The heterogeneity and increased exchange rate volatility of these currencies lead to distortions in the objective assessment of the Russian ruble's exchange rate and weaken its position in international circulation. Considering the growing volumes of "soft" currencies accumulated by Russian export organizations and commercial banks, as well as the existing restrictions in several countries on investments in the capital of Indian, Iranian, and companies from other nations, there arises a need to sterilize the excess accumulations of these currencies. According to S. Yu. Glazyev and D.A. Mityaev, the best way to sterilize the excess "soft" currency is to purchase non-sanctioned gold in China, the UAE, Turkey, possibly Iran,

and other countries using local currencies, including for use in international settlements and replenishing the gold and foreign exchange reserves of the Bank of Russia [24].

Considering the predominant influence of the export/import ratio of goods and services by Russian organizations on the formation of the national currency's exchange rate, the optimal option for an international asset that can be successfully utilized by Russian participants in foreign economic activity in this capacity is a trade currency with reliable commodity backing. The role of such backing objectively belongs primarily to gold, as well as to a number of strategically important commodities, including platinum group metals, titanium, tantalum, chromium, tungsten, lithium, beryllium, and other rare and rare earth metals.¹⁰

The consequence of the weakening international position of the U.S. dollar and increasing geopolitical tension is the rising production volumes of gold and the increase in global prices for the yellow metal. The feature of the current situation is that the rise in gold prices is occurring simultaneously with an increase in the yield of U.S. government bonds and a strengthening of the U.S. dollar index. Typically, these financial indicators are inversely correlated with the price of gold. There is also a significant increase in the volume of gold purchases by central banks, thereby confirming the partial preservation of its monetary role in GMFS. According to the report from the World Gold Council, in the first 9 months of 2023, purchases by central banks amounted to 800 tons, reaching the highest level for this period since 2000. The largest gold buyers in the third quarter of 2023 were China (78 tons), Poland (57 tons), and Turkey (39 tons).¹¹ Recently, there have also been

¹⁰ In the Russian Federation, rare and rare earth metals are included in the list of main types of strategic mineral raw materials (Order of the Government of the Russian Federation from 30 August 2022, No. 2473 "On the approval of the list of main types of strategic mineral raw materials"). URL: <https://www.garant.ru/products/ipo/prime/doc/405118925> (accessed on 15.01.2024).

¹¹ Gold demand trends in the third quarter of 2023. World Gold Council. 31.10.2023. URL: <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2023> (accessed on 15.01.2024).

significant changes in Russia's trade policy on the international gold market. Russia, as a recent active seller of gold, is becoming a buyer of the yellow metal on the global market. If in 2021 Russia, according to the Federal Customs Service, sold 302 tons of gold worth 17.6 billion dollars, then in the Q3 of 2023, 3 tons of gold were purchased. The share of gold in the international reserves of the Bank of Russia is significant. According to the Bank of Russia, as of 1 October 2023, in the total volume of international reserves amounting to 569 billion dollars, the share of gold is 24.7% (140.5 billion dollars).¹² Restrictive measures are being implemented on the export of gold from Russia. This includes the proposal initiated by the Federal Customs Service to impose restrictions on the export of gold by individuals,¹³ as well as the Order of the Government of the Russian Federation from 31 October 2023, introducing a temporary ban on the export of waste and scrap of precious metals abroad from 1 November 2023 to 30 April 2024.¹⁴

CONCLUSION

The conducted analysis allows us to draw the following conclusions and generalizations.

1. In the current GMFS, a characteristic feature of the U.S. dollar as a global reserve currency is the growing imbalance in its function as world money: the dollar still remains the "anchor" of the GMFS and a measure of the value of other currencies, even as its share in international transactions and reserves of central banks in other countries significantly declines.

2. The main factors weakening the international position of the U.S. dollar in the current GMFS and decreasing trust in it as a global currency are the exacerbation of the U.S. national debt and budget deficit issues,

the increasing imbalance in the trade balance, and the contradictions in the monetary and financial policy of the Federal Reserve.

3. Currently, there is a rethinking of scientific and methodological approaches to assessing the essential characteristics of currencies in the function of world money within the Russian and international expert community. A vision is emerging for a new, alternative international trade currency to the dollar, backed by commodities, including gold.

4. The imperative of reforming GMFS is the creation of an extensive global currency system, in which countries will trade with the U.S. and several other countries using the dollar settlement system, while, for example, trading with China and Russia in monetary units backed by gold and other reliable assets.

5. In the context of the harsh sanctions standoff between Russia and the West, the issue of trust in global currencies has a very important geo-economic and geopolitical dimension. Transformations are occurring in the functional characteristics of the Russian ruble in international circulation. Its role as an international means of payment and settlement in trade with friendly countries is increasing.

6. The prospects for changes in the currency structure of international settlements and payments in the foreign trade of Russian export-import organizations depend on the shifts in the balance of factors that promote and restrain the use of currencies from friendly countries.

7. An urgent task in the new conditions is the formation of methodological approaches to the course formation of the Russian ruble and the enhancement of the reliability of its backing. The role of such provision objectively belongs primarily to gold, as well as a number of strategically important goods, including platinum group metals, titanium, tantalum, chromium, tungsten, lithium, beryllium, and other rare and rare earth materials.

8. In order to mitigate the negative consequences of increased volatility and low liquidity in the currency markets of

¹² International reserves of the Bank of Russia. Bank of Russia. URL: https://cbr.ru/hd_base/mrrf/mrrf_m (accessed on 15.01.2024).

¹³ The Federal Customs Service proposed to restrict the export of gold by individuals. Interfax. 1 November 2023. URL: <https://www.interfax.ru/russia/928662> (accessed on 15.01.2024).

¹⁴ Order of the Government of the Russian Federation from 31 October 2023. No. 1824. URL: <http://publication.pravo.gov.ru/document/0001202310310024> (accessed on 15.01.2024).

friendly countries, it would be advisable for Russian foreign trade organizations to more actively use the excess volumes of export earnings to purchase gold in local markets, with subsequent sales to the central bank to replenish international currency reserves.

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