ORIGINAL PAPER

DOI: 10.26794/2587-5671-2024-28-6-164-174
UDC 339.7(045)
JEL F02, F31, F32, F33

The US Dollar as a Prerequisite for the Crisis Potential of the Global Monetary and Financial System

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ABSTRACT

The crisis of the global monetary and financial system based on the US dollar has been the focus of attention of the international academic community for a long time. At the same time, modern research does not sufficiently present a comprehensive approach to studying the causes and consequences of the dysfunctionality of the current international monetary standard. The **purpose** of the paper is to systematize the cause-and-effect relationships of the crisis potential of the global monetary and financial system based on the US dollar as the key reserve currency. Methods of scientific abstraction, system analysis and logical generalization were used. Factors characterizing the crisis potential of the global monetary and financial system are identified: reproduction of global imbalances, chronic capital outflow from countries of the global periphery, growth of global debt and inflation, rupture of global chains and neoprotectionism, destabilization of markets for fuel, raw materials and food products. According to the author, the conservatism of the current international currency standard is due to the lack of real alternatives to the US dollar as international liquidity due to the US control of key institutions and mechanisms of the global financial market. The restrained attitude of the United States towards the need to introduce advanced digital technologies in the sphere of monetary circulation and reluctance to participate in the transformation of the global monetary and financial system reduces the chances of its qualitative reform. It is **concluded** that the main impulses for the de-dollarization of the global monetary and financial system should be the coordinated demands of the IMF member countries to restore the system of multilateral settlements using a wide range of national currencies; large-scale diversification of their investment portfolios by including emerging market assets; coordinated actions of the BRICS+ countries to create innovative mechanisms for international payments based on modern digital technologies.

Keywords: crisis of the global monetary and financial system; U.S. dollar; dedollarization; sovereign default; international investment position; diversification of investment portfolios; payments in national currencies; BRICS+; digital currencies

For citation: **Kuznetsov A.V. The US dollar as a prerequisite for the crisis potential of the global monetary and financial system. *Finance: Theory and Practice*. 2024;28(6):164-174. (In Russ.). DOI: 10.26794/2587-5671-2024-28-6-164-174**

INTRODUCTION

The American currency remains the central element of the global monetary and financial system (GMFS) for more than 50 years after the cancellation of its convertibility into gold. At the current stage, the use of the US dollar as a financial-economic weapon and the intensification of geopolitical tensions associated with the formation of new centers of global influence predetermine the irreversibility of the process of transforming the GMFS in the direction of diversifying international reserves and creating alternative international reserve, settlement, and payment mechanisms [1]. Meanwhile, the US' desire to maintain financial power at any cost in the emerging multipolar world is hindering systemic reforms.

In this regard, the greatest risks of GMFS imbalance stem from the growing U.S. national debt, the total amount of which exceeded $ 36.0 trillion in the fourth quarter of 2024.[1] Sanction restrictions are reducing trust in American debt obligations as a primary reserve asset. Meanwhile, high interest rates from the Federal Reserve System (FRS) increase the cost of servicing debt obligations and, consequently, the risks of sovereign default. From March 2022 to July 2023, the Federal Reserve conducted 11 interest rate hikes, increasing the rate from 0.25% to 5.50% during this period. In 2023, the U.S. government spent a total of $ 875 billion on interest payments on the national debt, which is $ 150 billion more than in 2022. About 78% of debt servicing payments are distributed in favor of private investors not affiliated with government federal institutions. Their reaction to the reduction in interest payments due to the easing of monetary policy by the FRS, which began in September 2024, is unpredictable (*Fig. 1*).

Another threat to the destabilization of GMFS comes from the preservation of the key positions of the US in the management of global financial flows. The dominance of the US in key international financial organizations (IFOs) promotes the advancement of the dollar as the currency for international loans and investments. At the same time, due to the limited financial resources available and as a result of adhering to the principles of the Washington Consensus in conducting stabilization policy, the activities of international financial organizations do not provide countries with reliable protection against unilateral manipulations by the US using such levers of the global financial and commodity markets as the Federal Reserve interest rate, credit ratings of the "Big Three" American specialized agencies (S&P, Moody's, Fitch), or pricing on international exchanges, which directly affects the cost of financial and raw materials resources and their availability for all other entities in international economic relations.

Under the current international monetary standard, it is becoming increasingly difficult for sovereign and corporate borrowers to overcome their dependence on American-centric structures of the global financial market. At the same time, the use of the US dollar as a global currency creates a chain of cause-and-effect relationships that characterize the persistent crisis-proneness of the global monetary and financial system, which objectively necessitates the replacement of the US dollar as its central element (*Fig. 2*).

To form a clearer understanding of the causes of the dysfunctionality of the current international monetary standard, let us examine the aforementioned cause-and-effect relationships in more detail.

CRISIS-SENSITIVITY OF THE GLOBAL CURRENCY-FINANCIAL SYSTEM

Permanent Reproduction of Global Imbalances

Within the framework of the modern GMFS, 190 IMF member states interact. However, only the US, as the issuer of the benchmark currency in which the exchange

[1] Debt to the Penny. An official website of the U.S. government. URL: https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny (accessed on 09.11.2024).

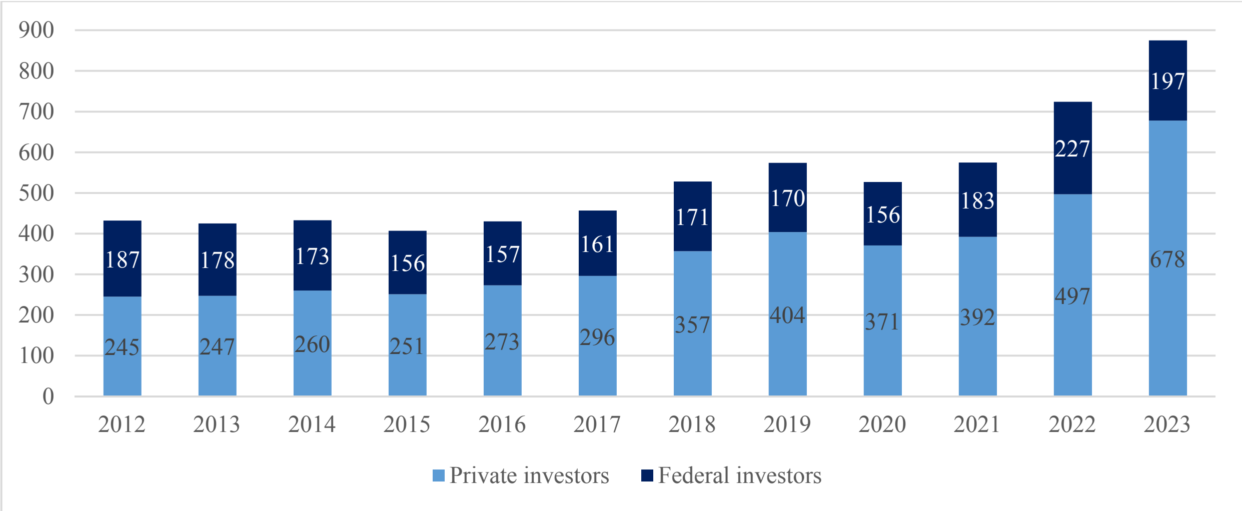

Fig. 1. **Aggregate Interest Expense of the U.S. on Debt Held from 2012 to 2023 (in Billion Dollars)**
Source: Statista. URL: https://www.statista.com/statistics/246439/interest-expense-on-us-public-debt/ (accessed on 10.02.2024).

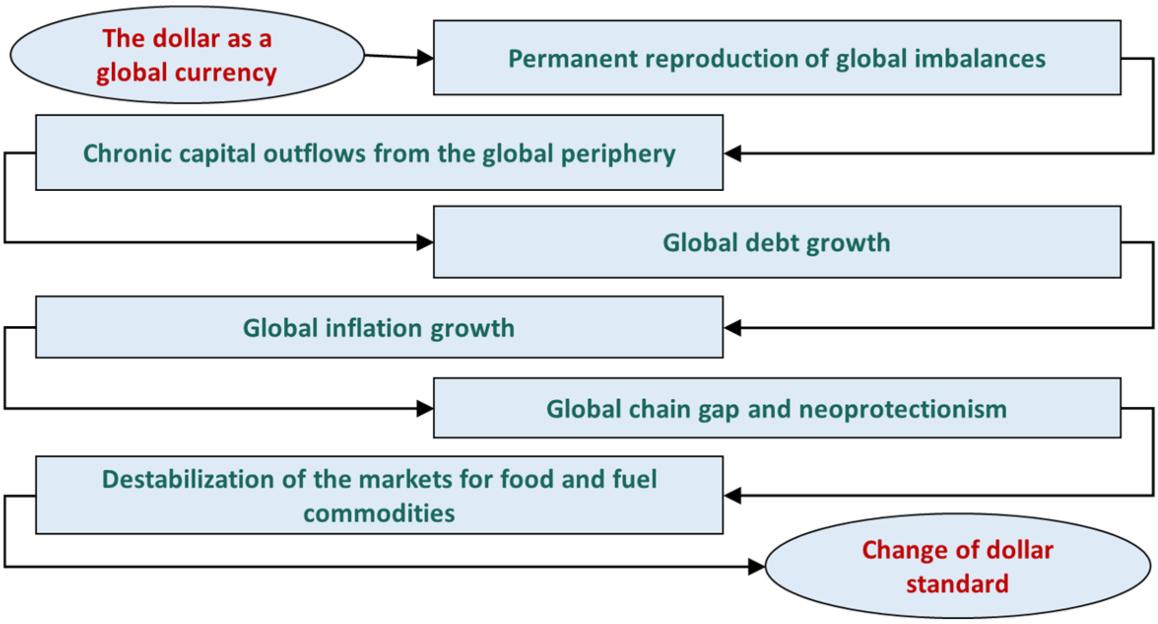

Fig. 2. **Cause-and-effect relationships of the crisis potential of the modern global monetary and financial system based on the U.S. dollar as the key reserve currency**
Source: Compiled by the author.

prices of strategic goods are expressed, international financial assets and official reserves are denominated, and settlements in international trade and payments for servicing external debt are carried out, possess the right to unconditional access to international liquidity. Other countries need to produce competitive products for the international market beyond the needs of their national economies to gain access to dollar liquidity. Especially hard, export dependence affects the economies of developing countries, which, in order to accumulate international reserves, practically transfer part of their national product to the global market without compensation, impoverishing national consumers by this amount. At the same time, developing countries often cannot utilize available international assets for currency interventions aimed at stabilizing the exchange rate of national currencies due to the disproportion between the size of their economies and the volumes of cross-border flows of global financial capital [2, p. 24–25].

By placing international reserves in highly liquid but *low-yield* financial assets of developed countries (primarily in US dollars), developing countries simultaneously attract borrowed resources on the international capital market through the issuance of *high-yield* debt securities (also predominantly denominated in US dollars). The difference in interest rates that arises between low-yield reserve assets and high-yield debt obligations serves as an additional tool for redistributing part of the national product of countries on the global productive periphery in favor of the financial core of the world economy [3, p. 193–194].

The priority development of the export sector in developing countries and emerging markets at the expense of the stability of the national currency and the development of other strategically important national industries results in a chronic gap in global levels of welfare. Thus, according to the results of 2022, per capita incomes in 41 developed countries were on average 4.4 times higher than per capita incomes in 155 countries with developing and emerging market economies (*Fig. 3*).

Thus, the policy of official international reserve currency under the auspices of the IMF, with the US dollar as the key reserve asset, contributes to the implementation of a model of unequal exchange between the productive periphery and the financial center of the global economy, leading to its gradual destabilization [4].

Increase in the External Financing Imbalance

Currently, the volume of monetary and financial obligations denominated in US dollars exceeds all permissible limits. Analysts tend to downplay the risks of an oversupply of US dollars due to their impeccable performance as credit money and the unwavering attractiveness of American Treasury bonds as a means of placing excess dollar liquidity [5, p. 43]. However, this is precisely where the problem lies. The thing is that against the backdrop of the relative reduction in the savings and consumption imbalance, which has been emerging since the global financial crisis, there is an exacerbation of another global imbalance — external financing. This is well illustrated by the global international investment position (GIIP) in terms of the expansion of global external liabilities, which in 2021 exceeded the size of external assets by 7% — mainly due to the increase in the external debt position of the US, which reached a record 19.47% of the size of the world's GDP (compared to 6.07% in 2012).

If ten years ago the size of the external debt obligations of the US accounted for 36.6% of their global value and was balanced by the external debt obligations of Eurozone countries and other creditors, then in 2021 the share of the US in the global volume of external debt obligations, measured by GIIP, increased to 89.9%. According to IMF forecasts, this ratio will remain in place for at least until 2028 (*Fig. 4*).

This situation means that in 9 out of 10 cases, investors choose the US dollar as the currency for denominating their foreign assets, which increases the risks of destabilizing the global economy. The difference between today's risks and the situation in 2008 lies in the significant reduction in the relative size of international reserves denominated in US dollars compared to the size of global dollar debt. It should be noted that from the third quarter of 2021 to the third quarter of 2022, there was the largest decline in dollar reserves in absolute terms in history, with their size decreasing by 650 billion. From January 2022 to January 2023, the largest decline in the

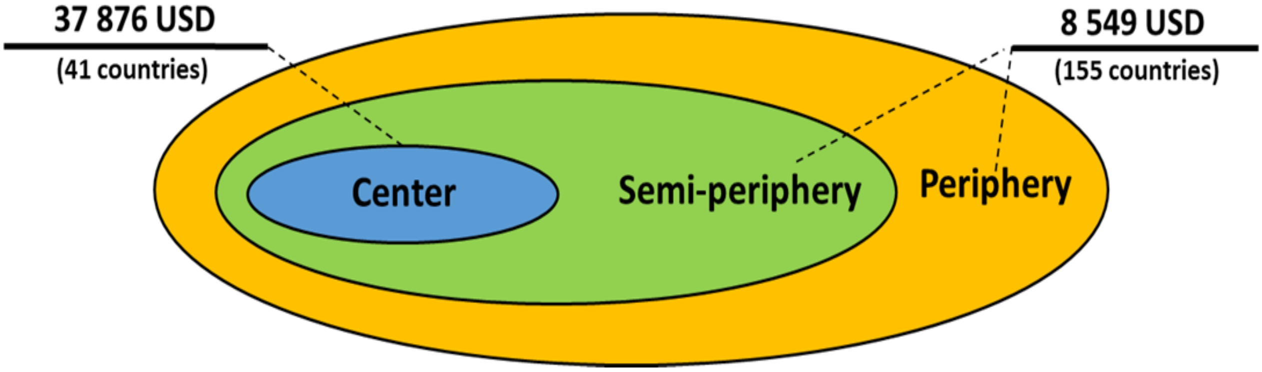

Fig. 3. **Gap in Per Capita Income Between Countries in the Center and Periphery of the World Economy, 2022**

Source: Calculated by the author on the data: IMF. World Economic Outlook Database. URL: https://www.imf.org/en/Publications/WEO/weo-database/2023/October / (accessed on 12.04.2024).

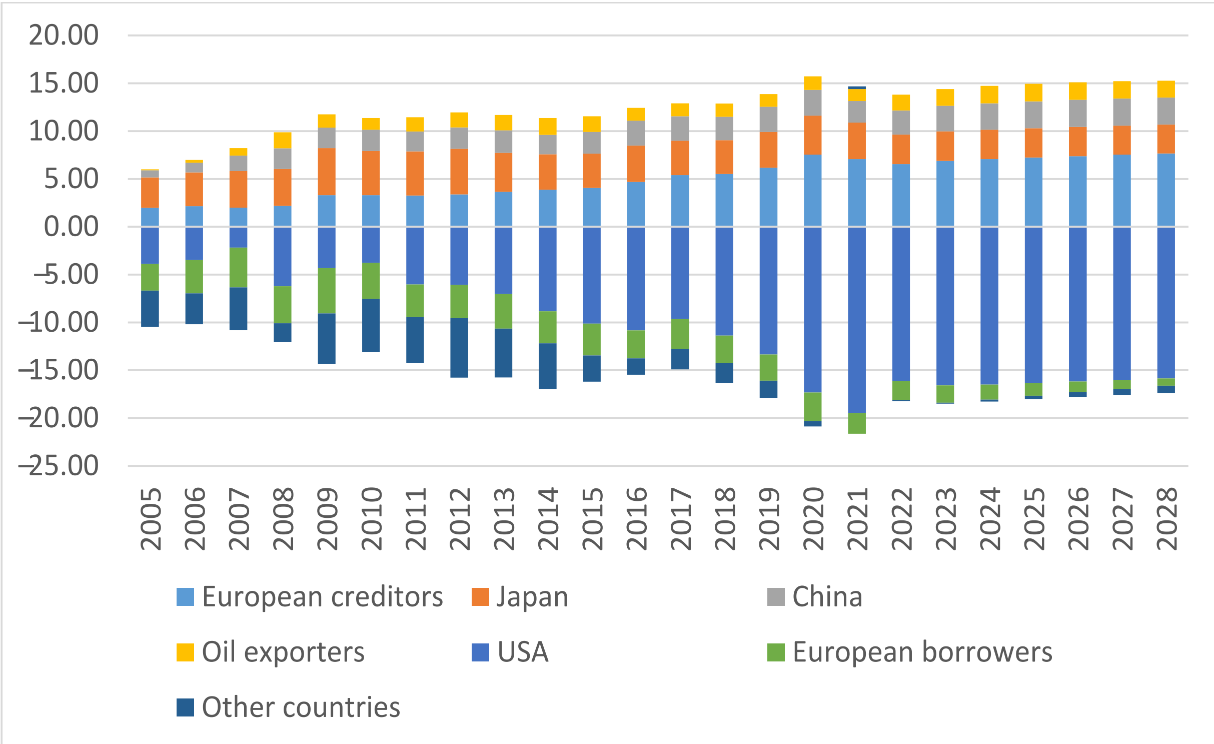

Fig. 4. **International Investment Position (Percent of Global GDP)**

Source: IMF. World Economic Outlook Report October 2023. URL: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023 (accessed on 10.02.2024).

portfolio of U.S. Treasury bonds was observed among the following official holders: Japan (–195.5 billion), China (–174.4 billion), Ireland (–55.2 billion), France (–49 billion).[2]

Overall, from March 2020 (the beginning of the COVID-19 pandemic) to December 2022, the share of foreign holders of U.S. Treasury securities in the total portfolio of private investors in U.S. government debt decreased from 48% to 38%, indicating a gradual loss of international investment attractiveness of U.S. government bonds.

[2] Department of the Treasury. Estimated foreign holdings of U.S. Treasury bills. URL: https://ticdata.treasury.gov/Publish/mfh.txt (accessed on 13.02.2024).

Chronic Capital Outflow from Global Peripheral Countries

The predominant placement of international reserve and investment assets in US dollars leads to a permanent revaluation of its exchange rate against the currencies of the US trading partners, which increases global inflation. Given the underdevelopment of national currency markets and the insufficient volume of foreign exchange reserves in most developing countries, the risks of a sharp capital outflow, the sale of assets in the national currency, and the subsequent deterioration of the macroeconomic situation increase during crises.

Studies by the Federal Reserve on the impact of the COVID crisis on the economies of emerging market countries have demonstrated a direct link between capital outflows from these countries and the depreciation of their national currencies against the US dollar [6]. Thus, during the four-week period of the COVID shock, the US dollar exchange rate rose by almost 7% against the currencies of emerging markets. At the peak of the crisis in mid-March 2020, the size of the global portfolio of assets managed by investment funds was falling by approximately 1.5% per week, while the size of assets in the form of debt obligations was decreasing by more than 4.5% per week, which exceeded the rate of portfolio contraction during the global financial crisis in October 2008 [7].

Thus, every time the global economy is subjected to a crisis impact, emerging markets experience macroeconomic shocks accompanied by capital outflows, which further destabilize global economic processes due to the almost insurmountable dependence of developing countries on the import of strategic goods and refinancing in international financial markets.

Growth of Global Debt

The extraordinary volatility of the US dollar as a global currency leads to increased costs for other countries in the form of imported inflation, the conclusion of expensive risk hedging contracts, and rising expenses for servicing external debt. This problem is particularly acute for the developing countries of Latin America and the Caribbean (LAC), which, since the debt crisis of the 1980s, have been forced to continuously increase their external debt burden to counteract the aforementioned issues, without the possibility of stabilizing the state of their national economies in the long-term [8].

The financing of chronic budget deficits primarily through new government borrowings amid unstable economic growth rates in 2020 resulted in the declaration of defaults on government bonds in Ecuador, Argentina, Belize, and three times in Suriname. The economies of Venezuela, Brazil, El Salvador, and Mexico[3] are also exposed to insolvency risks, as evidenced by the restructuring of debt obligations amounting to over $ 80 billion within a year after the onset of the pandemic.[4]

To cover increasing budget deficits and finance current expenditures against the backdrop of low global interest rates and borrowing costs, in 2021, sovereign and corporate borrowers from LAC countries issued bonds on the international debt market for a historically record amount of $ 149 billion. In the currency structure of external debt obligations of LAC countries, the US dollar traditionally predominates, with its share in 2021 issuances amounting to 81.1%, and reaching 92.0% in January-April 2022.[5] The subsequent increase in

[3] White & Case. Sovereign debt restructurings in Latin America: a new chapter. 25.10.2021. URL: https://www.whitecase.com/publications/insight/latin-america-focus/sovereign-debt (accessed on 13.02.2024).

[4] Six sovereign defaults in 13 months roil Latin American ma rkets. Bloomberg. 12.05.2021. URL: https://www.bloomberg.com/news/articles/2021–05–12/six-defaults-in-13-months-upend-latin-america-s-bond-market (accessed on 12.02.2024).

[5] Economic Commission for Latin America and the Caribbean. Capital flows to Latin America and the Caribbean 2021 year-in-review and first four months of 2022. P. 29. URL: https://www.cepal.org/sites/default/files/news/files/22–00485_was_-_capital_flows_2021_year_in_review_web.pdf (accessed on 12.02.2024).

the cost of financing international loans, driven by a strong dollar and the tightening of monetary policy by the FRS, is further exacerbated by investors' distrust of the debt obligations of Latin American borrowers due to insufficiently high economic growth rates in the region.

Thus, considering the strategic importance of Latin American countries as suppliers of key raw materials to the global market, the uncontrolled growth of their debt obligations denominated in US dollars increases the risks of a repeat global debt crisis [9].

Global Inflation Growth

The devaluation of national currencies in emerging markets and developing countries leads to an increase in imported inflation on fuel, raw materials, and food products, the global prices of which are denominated in US dollars. According to the IMF, "in 2022, inflation in advanced economies reached its highest level since 1982, ... and in emerging market and developing economies since 1999".[6] The acceleration of inflation followed the massive liquidity injection by the central banks of developed countries to overcome the imbalance between supply and demand caused by disruptions in global supply chains in the second half of 2020 [10].

As a result of the sharp tightening of monetary policy by leading central banks, by the end of 2023, a steady decline in inflation was observed (down to 3.4% in the US and EU and 4% in the UK). The IMF predicts that global inflation will steadily decline: from 8.7% in 2022 and 6.8% in 2023 to 5.8% in 2024 and 4.3% in 2025. However, the inflation in leading developed countries exceeding the 2% target indicates serious failures in the monetary policy of central banks — the issuers of key reserve liquidity.

[6] IMF. World Economic Outlook. Confronting the cost of living crisis. October 2022. P. 4. URL: https://www.imf.org/ru/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022 (accessed on 12.02.2024).

Disruption of Global Supply Chains and Neoprotectionism

After the global financial crisis (GFC), the United States embarked on a path of neo-protectionism. According to the Chairman of the U.S. Federal Reserve, B. Bernanke, the GFC was caused by the excessive pumping of the U.S. economy with surplus savings from the rest of the world (global saving glut), primarily originating from China. As early as 2007, the Foreign Investment and National Security Act was passed, which restricted the inflow of foreign investments into strategic sectors of the American economy. However, the U.S.-China trade wars truly ignited after D. Trump took office, having called China a "currency manipulator" in his campaign speech. During his second presidential campaign, D. Trump expressed his intention to increase the import duty on Chinese goods from 25% to 60%. Although under the administration of D. Biden, the trade deficit in goods between the US and China had already decreased to its lowest level since 2010 in 2023.[7]

The positions of the China as an emerging superpower have been fundamentally shaken by the COVID crisis, which has led to a significant slowdown in the growth rate of the Chinese economy. The COVID-19 pandemic accelerated the trend of decreasing interdependence between the economies of the United States and China.[8] The decision by the United States to exclude Chinese companies from its 5G networks, the ban on exporting American semiconductor technologies to China (imposed by the White House administration on all leading global chip manufacturers), and the reduction of dependence on Chinese imports of pharmaceuticals and medical supplies have strengthened the resolve of Chinese

[7] Trump's favorite metric has Biden winning the US-China trade war. Bloomberg. 06.02.2024. URL: https://www.bloomberg.com/news/articles/2024–02–06/trump-s-favorite-metric-has-biden-winning-the-us-china-trade-war (accessed on 12.02.2024).

[8] Lowy Institute. US-China Competition. URL: https://interactives.lowyinstitute.org/features/covid19/issues/us-china/ (accessed on 12.02.2024).

politicians to achieve greater independence in advanced technology sectors. The rise of xenophobia in China and anti-Chinese prejudices in the United States may further limit their economic interaction and China's participation in global supply chains.

Destabilization of Fuel, Raw Materials, and Food Markets

Hypervolatility of fuel, raw materials, and food prices is yet another risk of destabilizing the economies of developing countries, which are respectively dependent on the import or export of strategic resources. Despite this, the coalition of Western countries led by the US exacerbated this risk by imposing unprecedented sanctions against Russia, one of the largest exporters of raw materials. Initially, the sanctions triggered a sharp rise in commodity prices, followed by an equally sharp decline, caused both by the imposition of an embargo and the establishment of a price cap on the import of Russian energy resources by the EU and G7 — a reaction to Russia's special military operation in Ukraine. During the years 2020–2023, on global commodity exchanges, the prices of benchmark oil brands — American WTI and European Brent — fluctuated in the range of $ 21 to $ 125 per barrel, and the price of a bushel of wheat ranged from $ 473 to $ 1175.

Meanwhile, Western sanctions against Russia have had a destabilizing effect not so much on Russia itself, but on other countries around the world, causing disruptions in supply chains, rising food prices, increased costs for production resources, a slowdown in the manufacturing sector, and a deceleration of economic growth, which has particularly severely impacted low-income countries.

However, as noted above, under the current currency standard, crises on the periphery of the global economy increase the demand for international liquidity expressed in US dollars, which allows the US to significantly shift the financing of its foreign policy costs onto the rest of the world.

TRANSFORMATIONS OF THE CURRENCY STANDARD

The current international monetary standard has plunged the global economy into a peculiar state of "Stockholm syndrome", where the "hostage" countries find themselves unable to abandon the dollar as the world currency, despite the increasing costs of unequal exchange. However, despite the American currency performing universal functions to meet the growing demands of the global consumer society, the current status quo is vulnerable to the influence of the following circumstances.

Firstly, the freezing of Russia's international reserves, which are the seventh largest in the world, raises the question of a qualitative change in the strategy of accumulating reserve assets [11] and returns the world to the original logic of creating the IMF as an institution designed to facilitate multilateral transactions between countries in their own currencies [12]. After all, despite the expansion of the IMF's credit program lineup, about 70% of the Fund's available borrowing resources remain unutilized in servicing global financial flows [13, p. 111]. The unpredictability of U.S. foreign economic policy is strengthening the trend of diversifying currency reserves through assets from developing countries, primarily Chinese ones. This is also facilitated by the expansion of strategic Russian-Chinese economic cooperation, outlined following the state visit of the Chairman of China, Xi Jinping, to the Russian Federation in March 2023,[9] as well as the increase in the use of the yuan and the ruble in foreign economic transactions.[10]

Secondly, the development of the crypto-assets market, which ensures financial

[9] Joint Statement by the President of the Russian Federation and the Chairman of the People's Republic of China on the Plan for the Development of Key Areas of Russian-Chinese Economic Cooperation until 2030. 20.03.2023. URL: http://kremlin.ru/supplement/5919 (accessed on 27.03.2023).

[10] The yuan and the ruble have for the first time accounted for half of Russia's export transactions. RBC Finance. 09.03.2023. URL: https://www.rbc.ru/finances/09/03/2023/6409deb29a7947280bbc1758 (accessed on 26.03.2023).

inclusivity for the broadest segments of the population even without the need to improve their financial literacy, is gaining increasing popularity in the global economy [14, p. 227]. On the one hand, crypto assets may be subjected to strict regulation to avoid causing extreme speculative impacts on the functioning of financial markets. On the other hand, they encourage central banks to adopt a more proactive policy in implementing modern digital technologies in the field of monetary circulation. In the US itself, regulators are thwarting significant attempts to undermine the authority of official monetary authorities through initiatives from the private high-tech sector and are skeptical about the idea of introducing digital currency. Meanwhile, European and Asian central banks are gradually joining forces to develop projects for the use of central bank digital currencies to service cross-border trade and currency operations [15, 16].

Thirdly, taking into account the expansion of the official BRICS group composition from January 2024 and the prospects of new member countries joining, one should expect an intensification of efforts by BRICS+ participants to develop innovative approaches to mutual settlements and payments in national (collectively created) currencies, as well as to accelerate work on creating new mechanisms for international settlements based on modern digital technologies [17, p. 41]. A peculiar indicator of the potential reduction in the dollar dependency of BRICS+ countries in foreign economic activities could be the progress in China's use of its own digital currency for international settlements and payments [18].

CONCLUSION

The sustainability of the dollar-centric model of the GMFS is due to the lack of real alternatives to the US dollar as a global currency, the demand for which increases during financial crises occurring both in the US itself and on the global periphery. The prolonged dominance of the US dollar as the monetary axis of the modern GMFS system is due to a multitude of factors, among which a special role is assigned to American institutions that mediate the movement of global financial flows.

In the context of implementing ambitious global foreign policy goals, the dollar is increasingly being used as a financial-economic weapon aimed at weakening major competitor countries, which exacerbates the crisis potential of the current international monetary standard and preserves numerous risks of destabilizing the global economy. The negative consequences of using the US dollar as the key global currency include: the reproduction of trade and financial imbalances, chronic capital outflows from global peripheral countries due to the revaluation of the US dollar exchange rate against the currencies of major trading partners, the growth of global debt and prices, currency wars and the disruption of global value chains, as well as neoprotectionism and the destabilization of fuel, raw materials, and food markets.

The need to protect the global economy from the risks of excessive use of the US dollar and the emergence of alternative international settlement technologies related to the development of the digital economy leads to the emergence of numerous initiatives aimed at the gradual de-dollarization of foreign economic activities. However, the successful transformation of the dollar-centric GMFS standard largely depends on the coordinated demands of IMF member countries to restore the status of GMFS as a system of multilateral settlements using a wide range of national currencies; the implementation of large-scale diversification of their investment portfolios by including assets from emerging markets; and the coordinated actions of BRICS+ countries in creating a new mechanism for international settlements using modern digital technologies.

Undoubtedly, the issue of replacing the US dollar cannot be viewed simplistically. Most likely, the American national currency will continue to be used as global money in the familiar technological format for a long time. In fact, the demonetization of gold was not instantaneous; it took place over more than six decades (1914–1978). However, to outline the contours of the new global monetary order, it is first necessary to have a clear understanding of the main driving forces behind the transformation of GMFS.

ACKNOWLEDGEMENTS

The article was written based on the results of the research carried out at the expense of budget funds, which were provided to the Financial University. Financial University, Moscow, Russia.

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Conflicts of interest statement: the author has no conflicts of interest to declare.

The article was submitted on 19.02.2024; revised on 19.03.2024 and accepted for publication on 27.03.2024.
The author read and approved the final version of the manuscript.

Translated by V. Timonina