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## Changes in the international monetary system: opportunities and risks for the US dollar

**Abstract.** In the 1940s, the US dollar was established as an international currency. Since then, its position has been practically unchallenged. However, in light of the financial crisis of 2008, the strengthening of the Chinese and European economies, and the COVID-19 pandemic, it is necessary to reflect on the future balance of power in the international monetary system. To this end, this article poses the following research question: is the US dollar facing a threat to its leading position in the global arena?

First, I describe the historical currency system and the position of the dollar after the 2008 crisis; next I analyze the pandemic up through the end of June 2020. Then, I consider three possible scenarios for the dollar. First, it is possible to create a new global currency which would consist of a basket of the five most important world currencies. The second option is to replace the dollar with another currency, especially the euro or the renminbi. The third and most probable scenario is the compresence of several competing national currencies in international trade. Abandoning the dollar is possible, but it would require significant financial and institutional changes. This means that in the absence of any easy solutions for dethroning the US currency, it will remain the world's leading currency.

**Keywords:** International Monetary System; US Dollar; International Currency

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**Зміни в міжнародній валютній системі: можливості та ризики для долара США**

**Анотація.** Відтоді як у 1940-х рр. долар США набув статусу світової валюти, його позиція практично не оскаржується. Однак у світлі фінансової кризи 2008 року, зміцнення китайської та європейської економік і пандемії COVID-19 необхідно задуматися про майбутнє співвідношення сил у міжнародній валютній системі. З цією метою у статті ставиться таке дослідницьке питання: чи зіткнувся долар США із загрозою для свого лідируючого становища на світовій арені?

У дослідженні аналізується чинна валютна система світу та становище долара після кризи 2008 року, а також ситуація, що виникла в зв'язку з пандемією, до кінця червня 2020 року. Розглядаються три можливі сценарії розвитку подій для долара. По-перше, ідеться про можливість створити нову глобальну валюту, яка б складалася з кошика п'яти найважливіших світових валют. Другий варіант – замінити долар іншою валютою, особливо євро або юанями. Третім і найбільш вірогідним сценарієм є збереження обігу кількох конкуруючих національних валют у міжнародній торгівлі. Відійти від долара можливо, але це потребує значних фінансових й інституційних змін. Отже, в умовах відсутності простих рішень щодо детронізації американської валюти вона залишатиметься провідною валютою у світі.

**Ключові слова:** міжнародна валютна система; долар США; світова валюта.

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**Изменения в международной валютной системе: возможности и риски для доллара США**

**Аннотация.** С тех пор как в 1940-х гг. доллар США получил статус мировой валюты, его позиция практически не оспаривается. Однако в свете финансового кризиса 2008 года, укрепления китайской и европейской экономик и пандемии COVID-19 необходимо задуматься о будущем соотношении сил в международной валютной системе. С этой целью в статье ставится такой исследовательский вопрос: столкнулся ли доллар США с угрозой для своего лидирующего положения на мировой арене? В исследовании анализируется действующая валютная система мира и положение доллара после кризиса 2008 года, а также ситуация, возникшая в связи с пандемией, до конца июня 2020 года. Рассматриваются три возможных сценария развития событий для доллара. Во-первых, речь идет о возможности создать новую глобальную валюту, которая состояла бы из корзины пяти важнейших мировых валют. Вторым вариантом – заменить доллар другой валютой, особенно евро или юанями. Третьим и наиболее вероятным сценарием является сохранение обращения нескольких конкурирующих национальных валют в международной торговле. Отойти от доллара возможно, но это требует значительных финансовых и институциональных изменений. Итак, в условиях отсутствия простых решений по детроизации американской валюты она будет оставаться ведущей валютой в мире.

**Ключевые слова:** международная валютная система; доллар США; мировая валюта.

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**Zmiany w międzynarodowym systemie walutowym: szanse i zagrożenia dla dolara amerykańskiego**

**Streszczenie.** W latach 40-tych XX wieku dolar amerykański stał się walutą międzynarodową. Od tego czasu jego pozycja jest praktycznie niekwestionowana. Jednak w świetle kryzysu finansowego z 2008 r., umocnienia się gospodarki Chin i Europy oraz pandemii COVID-19, należy zastanowić się nad przyszłym układem sił w międzynarodowym systemie walutowym. Z tego względu w niniejszym artykule postawiono następujące pytanie badawcze: czy pozycja dolara na arenie międzynarodowej jest zagrożona?

W tym celu, na samym początku opisano system walutowy w ujęciu historycznym oraz pozycję dolara po kryzysie z 2008 r., uwzględniając pandemię COVID-19 do końca czerwca 2020. Następnie wyznaczono trzy możliwe scenariusze dla przyszłości amerykańskiej waluty. Po pierwsze, możliwe jest stworzenie nowej globalnej waluty, która składałaby się z koszyka pięciu najważniejszych walut światowych. Drugą opcją jest zastąpienie dolara inną walutą, zwłaszcza euro lub renminbi. Trzecim i najbardziej prawdopodobnym scenariuszem to obecność kilku konkurujących ze sobą walut krajowych w handlu międzynarodowym. Oznacza to, że rezygnacja z dolara jest praktycznie możliwa, ale wymagałaby ona znacznych reform finansowych i instytucjonalnych. Tym samym, przy braku szybkich rozwiązań alternatywnych, polegających na zdetroizowaniu dolara, wydaje się, że póki co pieniądź amerykański pozostanie nadal wiodącą walutą na świecie.

**Słowa kluczowe:** międzynarodowy system walutowy; Dolar; waluta międzynarodowa.

**1. Introduction**

The international monetary system is the set of rules, institutions, and treaties defining the conditions and methods of functioning of money in the sphere of international relations. The need for it stems from the use of various monetary units in various countries and groups of countries (Dorosz, 2011, p. 92-113). After the nineteenth century, the world gradually departed from a gold-currency system to a gold-standard system and then a gold-exchange standard. Nowadays, the system comprises many exchangeable currencies that assumes the liquidity of currencies of highly developed countries.

Murray N. Rothbard, one of the most prominent representatives of the Austrian school of economics, pointed out that the history of money in the twentieth century was marked by a constant tendency to ease the constraints that prevented the state from increasing the money supply (Rothbard, 2007, p. 235). One of the worst consequences of inappropriate monetary policy was the global crisis of 2008. However, in spite of the artificial lowering of interest rates by the Federal Reserve, which resulted in citizens' and investors' wrong investments and assumption of excessive risk (Jabłocki & Machaj, 2009) and in turn led to the collapse of the economies of many countries, the US dollar continues to reign.

More than ten years later, on December 31, 2019, the COVID-19 pandemic broke out in Wuhan, China. The central banks of many countries decided to take on a desperate policy of quantitative

easing to finance government spending and save their economies. In the United States, as of the beginning of June 2020, over two million people had contracted COVID-19, which put the country in first place (Worldometer, 2020). The US-China trade conflict is growing more and more tense. Will this complex situation affect the balance of power in the international monetary system? Will banknotes with the motto «In God we trust» be replaced by another currency? To answer these questions, I review the relevant literature and form inferences based on statistical data. I first describe the historical international monetary system, the global position of the dollar from the 2008 crisis to the end of 2019, and the current situation (through June 2020). Then I attempt to assess the future threats to the US currency by outlining possible scenarios.

## 2. The international monetary system: a historical perspective

The first international monetary system was the gold standard, which obligated participating countries to define their currencies as a specific weight of gold. In addition, domestic money in its other forms (bank deposits and banknotes) could be freely exchanged for gold at a fixed price. In Great Britain, the metal formally became legal tender in 1821; in the United States, after the Coinage Act of 1834;<sup>1</sup> in Australia and Canada, in the early 1850s; and in the rest of the world, in the 1870s (Hülsmann, 2008, p. 209). In general, the period from 1880 to 1914 is considered the period of the classical gold standard because it was then that most countries (to a varying degree) chose this system (Bordo). The gold standard's greatest advantages included stability, which facilitated trade between countries (the system eliminated exchange rate fluctuations); the development of democracy; and the inability to fix prices and wages. And although, as Ludwig von Mises, the teacher of Rothbard, put it, it was not a perfect system - since there is no such thing as perfection in the world of human affairs - it had one special feature: the independence of the purchasing power of money from the changing goals and doctrines of political parties or pressure groups, which limited credit expansion and inflationary measures (Mises, 1998, p. 468-475).

The gold standard collapsed during World War I (in 1914), when the fighting countries decided to finance their military operations with inflation. Between 1925 and 1931 the world saw a temporary and limited return to gold as the basis of the international monetary system. At that time, the gold-exchange standard, which bound any given country's currency to currencies convertible into gold, was in operation. This system ensured a policy of coordinated inflation, as only the Fed and the Bank of England issued the convertible reserve currencies. Other central banks held their reserves in either dollars or pounds, so the pace of monetary expansion depended on those two countries. The whole system was an incentive to engage in many irresponsible behaviors because of the opportunities it provided for engaging in inflation. Not surprisingly, this system lasted only a few years. It collapsed as a consequence of the Wall Street crisis of 1929, when the governments of many countries turned to protectionist policies or imposed currency controls, thus stifling international payments and making it impossible to replenish reserves. As a consequence, the Bank of England suspended its payments in September 1931 (across the ocean, Franklin D. Roosevelt nationalized citizens' gold and repealed contracts in which payment was specified in gold) and central banks of other countries, following its lead, helped bring the world into a regime of fluctuating exchange rates that lasted until the end of World War II (Hülsmann, 2008, p. 215-216).

In 1944, at a conference in Bretton Woods, New Hampshire, in the United States, delegates from forty-four countries attempted to rework the foundations of the international monetary system. The International Monetary Fund and the World Bank were created. Provisions regarding fixed exchange rates were made (rates could fluctuate within a  $\pm 0.5$  percent band), the dollar was made exchangeable into gold again (the price of one ounce of gold was USD 35), and the central banks outside the United States were obliged to maintain reserves in dollars.<sup>2</sup> Thus, the US currency became a world currency, and the Fed was free to print money (Hülsmann, 2008, p. 216-219).

<sup>1</sup> That year, the United States set the price of gold at USD 20.67 per ounce, a price that remained unchanged until 1993.

<sup>2</sup> L. von Mises (1998), in *Human Action*, explains why other countries agreed to the domination of the United States: «The Bretton Woods Conference was held under very particular circumstances. Most of the participating nations were at that time entirely dependent on the benevolence of the United States. They would have been doomed if the United States had stopped fighting for their freedom and aiding them materially by lend-lease. The government of the United States, on the other hand, looked upon the monetary agreement as a scheme for a disguised continuation of lend-lease after the cessation of hostilities. The United States was ready to give and the other participants - especially those of the European countries, most of them at that time still entirely occupied by the German armies, and those of the Asiatic countries - were ready to take whatever was offered to them» (p. 475).

Since 1968, however, the US government has had increasing difficulties keeping the gold parity within the limits set at the Bretton Woods Conference. Additionally, because of the high costs of the Vietnam War in the early 1970s and President Johnson’s social programs, the US budget deficit emerged. Gold flowed from the United States. As more and more dollars were printed, more countries considered exchanging dollars for gold. Not surprisingly, on August 15, 1971, President Richard M. Nixon abandoned the 1944 arrangements. Since then, the dollar has been unbacked by gold (Kwaśnicki, 2008), and many countries have introduced floating exchange rates.

From the 1970s to the present day, the international monetary system has been a multicurrency system or a nonsystem (Farhi & Gourinchas, 2011). It was not created through negotiations between countries; rather, it is the outcome of many countries’ individual exchange rate policies (Mikita, 2016, p. 85-99). Thus, several currencies currently play a significant role on a global scale (for example, the euro and the renminbi), with the dollar leading the pack.

### 3. The unwavering position of the dollar after the 2008 crisis<sup>3</sup>

For years, the United States has been a political and economic empire. Among other causes, it gained its position thanks to the war with Spain in 1898, participation in the First World War along with the formation of a new order by Woodrow Wilson in Europe, and the dollar’s establishment as an international currency in the 1940s at Bretton Woods. Shortly after World War II, the global domination of the United States was indisputable. However, since the 2008 crisis, its hegemonic position has been questioned. The question arose of whether the dollar could maintain its dominant position in such difficult times (Markiewicz, 2012, p. 101-114).

The role of a global currency is determined by both short-term and long-term factors. The former include, for example, exchange rates and interest rates, which affect international financial markets. Long-term factors determine the rank of an international currency. They include, among others, the stability and size of the economy, macroeconomic policy (especially monetary policy), and the currency’s stability (Mucha-Leszko, 2007, p. 279). In addition, a country with a world currency has a large share of global GDP and have well-developed trade links. The position of a global money is shaped in two main areas. The first concerns the official sphere, which takes into account, among other things, the rank of the money in the global basket of reserve currencies, the structure of the country’s debt, and the type of its creditors. The use of the money in the private sphere consists in its use in international trade and financial markets.

#### *The dollar in the official sphere*

The United States is undoubtedly an economic power. In 2019, US GDP amounted to USD 21.439 450 million (Statista 2020), which represented the largest share (23 percent) in the global economy (China’s GDP, at 15.5 percent, was second largest). The situation looks worse when the country’s debt is taken into account. From 2007 to 2019, the public debt of the United States increased by 249 percent (from USD 8 849 665 million to USD 22 027 880 million; see [Figure 1](#)), and in 2019 it was 102 percent of US GDP. It is estimated that the government spent nearly USD 593.1 billion on its services in the financial year in question (Desilver, 2019).

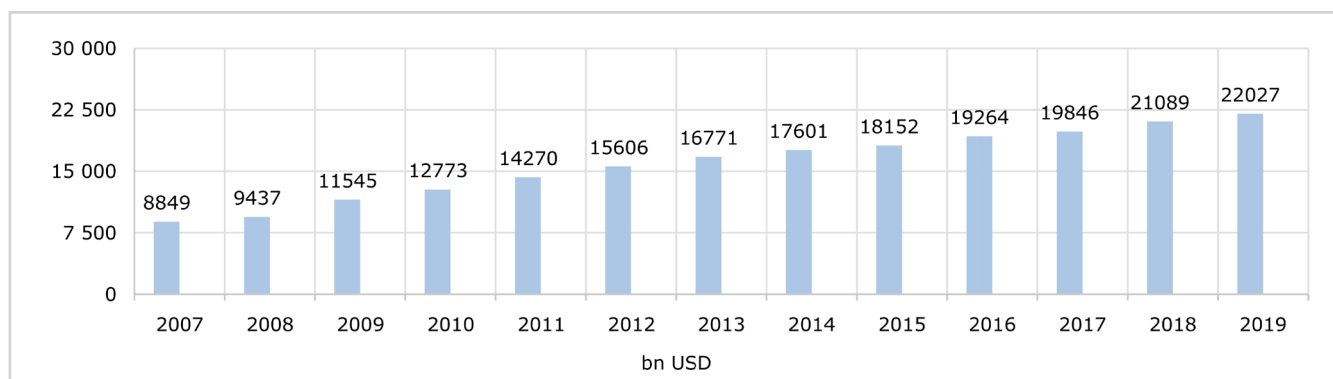


Figure 1:

#### **US total public debt, 2007 to 2019 Q1**

Source: Own study based on data from the Federal Reserve Bank of St. Louis (2020a)

<sup>3</sup> An earlier version of this part of the paper appeared in Sielska (2018, p. 213-228).

It would seem that the United States' aggressive fiscal policy and extremely large debt would weaken the dollar on international markets. The dollar has, however, dominated the global basket of reserve currencies for years. Its share in the basket has remained at a similar level since the crisis (for example, in the first quarter of 2007, its share was 65.05 percent, and in the first quarter of 2019 it was 61.73 percent; see Figure 2) (Prasad, 2014, p. 34-37).

Additionally, other countries are still interested in US financial assets. In 2000 they held assets worth nearly USD 1 billion, and in December 2019 they had over six times more (USD 6.691 billion). This means that neither the financial crisis nor the growing US debt has discouraged other countries from purchasing dollars. At the end of 2019, the main creditors of the United States included Japan and China, followed by Great Britain, Ireland, Brazil, Luxembourg, Switzerland, Cayman Islands, Hong Kong, and Belgium (Figure 3).

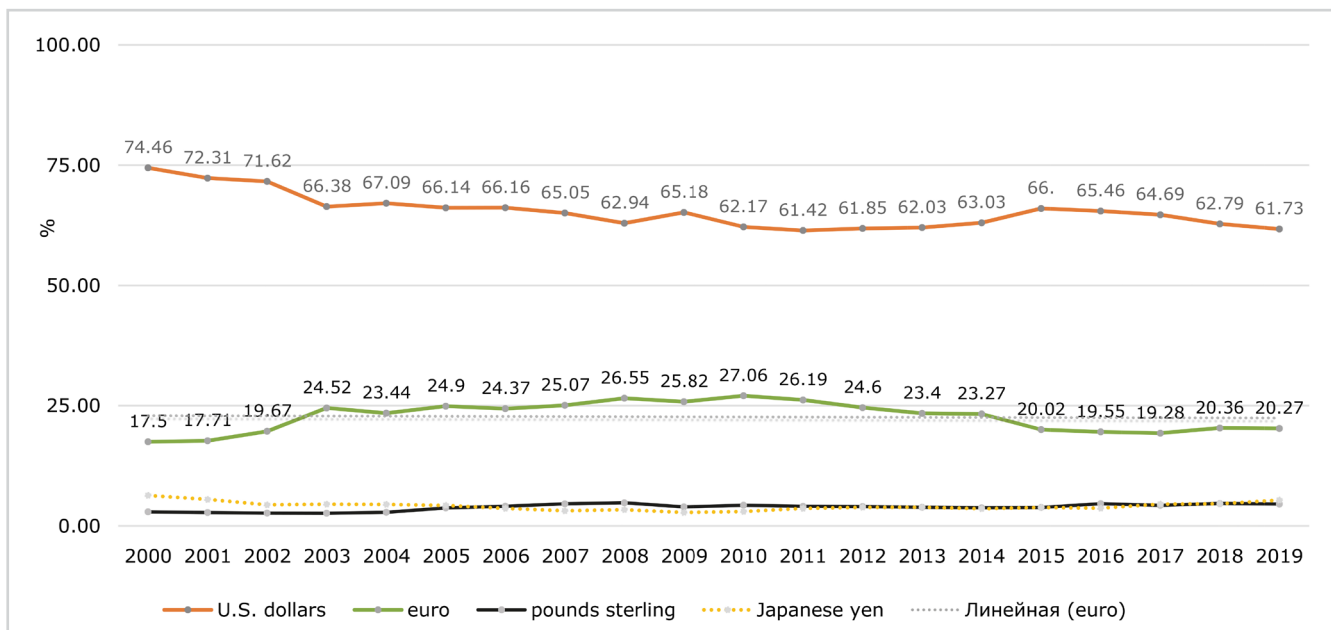


Figure 2:

**Basket of reserve currencies: the four most important currencies, ' Q1**

Source: Own study based on data from International Monetary Fund (2020a)

Note: \* - In addition, since 2016, the renminbi has been included in the global basket of reserve currencies, and since 2012 the Canadian dollar, Australian dollar, Swiss franc, and other currencies have been as well. In the first quarter of 2019, their shares, respectively, were 1.94 percent, 1.91 percent, 1.67 percent, 0.14 percent, and 2.42 percent.

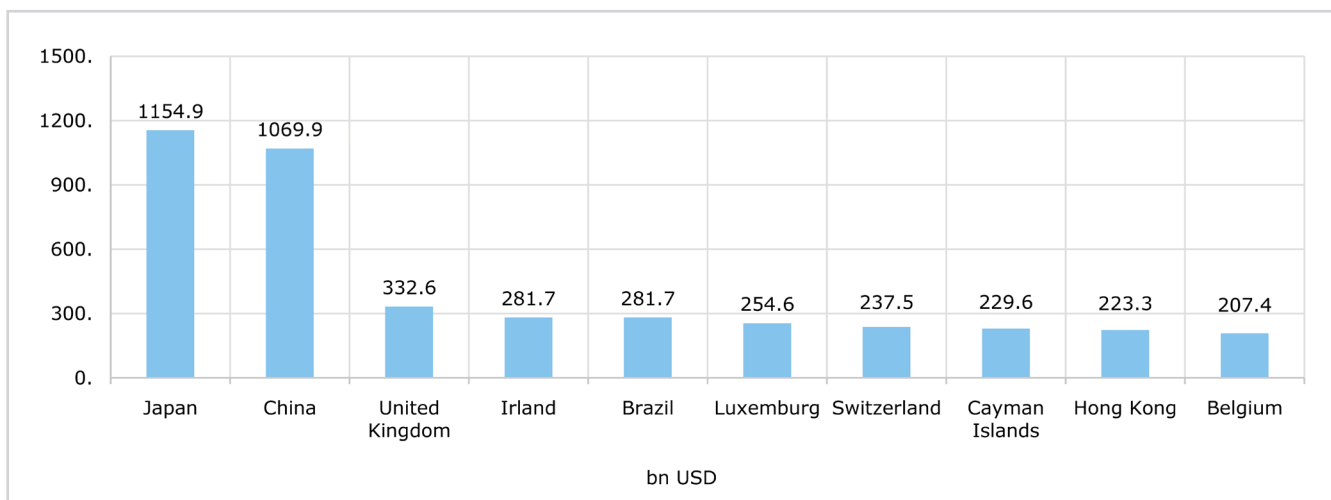


Figure 3:

**Major foreign holders of US Treasury securities (December 2019): top ten**

Source: Own study based on data from the Federal Reserve Bank of St. Louis (2020b)

### *The dollar in the private sphere*

Apart from official settlements, the world currency also plays a crucial role in international trade and is used in financial markets. For years, the dollar has been the leader in foreign exchange markets. In 2019 88.3 percent of transactions in international trade and financial markets were settled in dollars (Table 1).

In 2008, the importance of the dollar decreased in favor of the euro and the yen. However, after the crisis broke out in 2010 on the Continent, the dollar gained again. Its share in foreign exchange markets has constantly grown, with a simultaneous decline in settlements made in euros (Table 1).

Table 1:  
**Foreign exchange market turnover (%)<sup>\*</sup>: most important currencies**

	1995	2001	2004	2007	2010	2013	2016	2019
<b>Dollars</b>	83.3	90.3	88.7	86.3	84.9	87.0	87.6	88.3
<b>Euros</b>	53.7	37.6	36.9	37.0	39.1	33.4	31.3	32.3
<b>Yen</b>	24.1	22.7	20.2	16.5	19.10	23.0	21.6	16.8
<b>Emerging markets</b>	8.5	16.9	15.4	19.8	-	18.8	21.2	24.5

Note: <sup>\*</sup> - Because there are two currencies in each transaction, the sum of their shares is more than 100 percent (only the most important currencies were analyzed in the prepared table, so the sum is not 200 percent).

Source: Own study based on annual reports from the Bank for International Settlements (BIS, 2020)

Another factor influencing the role of the dollar in foreign exchange transactions is its widespread use in international trade. The position of the world currency in invoicing depends on, among other factors, the influence of a given economy on the external environment, mutual economic relations and the market share of the exporting country (Mucha-Leszko & Kałkol, 2013). The dollar undoubtedly performs well in this sphere compared to other currencies. For example, Gopinath's research<sup>4</sup> concerning global trade in the period 1999-2014 shows that the share of the dollar as invoiced currency was 4.7 times greater than world imports and 3.1 times greater than world exports (Gopinath, 2015). These results contradict the popular Mundell-Fleming paradigm (Fleming, 1962; Mundell, 1963), which assumes that the importance of a nation's currency in international trade is closely related to its importance in global trade. In that paradigm, countries export goods in their own currency, while in fact many countries use the US currency as a unit of account (Gopinath, 2019). In 2018 the dollar was the most frequently used currency in payments for EU imports, with a 56 percent share. When it comes to invoicing the EU's exports to countries outside its territory, the dollar's share was slightly lower than the euro's, although, as shown in Figure 4, this difference began to disappear in 2012 - that is, two years after the crisis in Europe.

Additionally, the US currency plays a significant role in the international capital market. The largest amount of loans (at current exchange rates) is made in dollars each year. In percentage terms, in the fourth quarter of 2016, 59.1 percent of loans were granted in dollars, 21.3 percent in euros, 3.6 percent in yen, and 16 percent in other currencies (Table 2).

Although the share of the US currency in international capital markets has slightly decreased since 2016, it still remains in the first place. The European Central Bank further emphasizes that the current rise in the importance of the euro is a just reversal of the decline recorded in 2006-2014. The rise is considered an outcome of, among other things, deleveraging by eurozone banks and regulatory efforts to reduce exposure to foreign loans (European Central Bank).

The dollar's importance in the international deposit market is similar to its importance in international capital markets. In the fourth quarter of 2019, its share was 54.5 percent, while the euro's share was 25.8 percent, the yen's share was 2.5 percent, and other currencies' share was 17.2 percent (Table 3).

Domination of a given currency in the world depends on historical conditions and the process that must take place for it to happen. These specific steps are described by Eichengreen (2010) as follows: «This experience suggests that the logical sequencing of steps in internationalizing

<sup>4</sup> The study included forty-three countries for imports and forty-four countries for exports, whose combined share is about 55 percent of world imports and 57 percent of world exports.

a currency is: first, encouraging its use in invoicing and settling trade; second, encouraging its use in private financial transactions; third, encouraging its use by central banks and governments as a form in which to hold foreign reserves.» Is there a real chance of a threat to the US currency? Before I address this question, I bring closer the situation during the COVID-19 pandemic in the United States until June 2020.

#### 4. The United States and the COVID-19 pandemic until June 2020

Pandemics are one of the most powerful socio-economic threats, and have significant consequences. Focusing solely on the economic sphere, they affect both the demand and supply sides. Consumers are forced to reduce their spending (as they are often held in quarantine), the workforce shrinks, and companies encounter financial problems because production

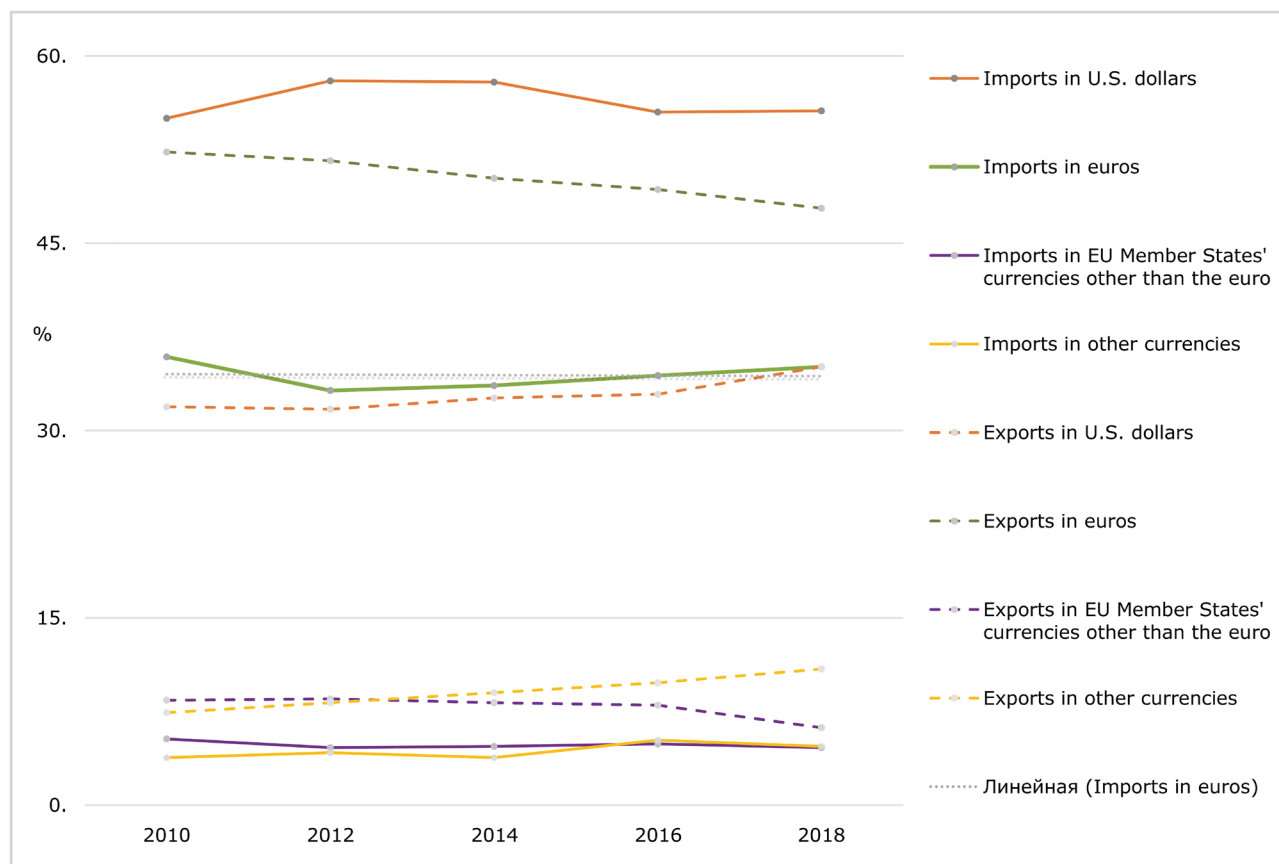


Figure 4:  
EU total trade (exports and imports) of goods by invoicing currency (2010-2018, %)

Source: Own study based on data from Eurostat (2020)

Table 2:

#### Outstanding international loans, by currency (2006-2019, %)

	Dollars	Euros	Yen	Other
2006	55.8	23.3	4.2	16.7
2007	53.8	24.3	4.6	17.3
2008	54.2	26.4	4.0	15.5
2009	55.2	24.8	3.1	16.9
2010	55.3	25.3	3.1	16.4
2011	54.2	25.7	3.6	16.4
2012	53.6	26.0	3.7	16.7
2013	54.5	23.7	5.1	16.7
2014	56.1	24.4	4.7	15.8
2015	57.6	22.8	4.0	15.6
2016	58.1	22.9	4.2	14.8
2017	57.0	22.6	3.9	16.4
2018	54.7	22.5	3.8	16.0
2019 Q4	54.4	25.2	3.8	16.4

Source: European Central Bank (2020)

Table 3:  
**Outstanding international deposits, by currency (2006-2019, %)**

	Dollar	Euro	Jen	Other
2006	56.0	24.0	3.4	16.6
2007	58.0	22.0	3.0	17.1
2008	59.1	23.2	2.7	15.0
2009	57.5	23.4	2.3	16.8
2010	58.8	24.3	1.9	15.0
2011	57.8	25.0	2.1	15.1
2012	56.8	24.3	2.1	16.8
2013	56.2	24.0	3.0	16.8
2014	54.5	25.0	3.7	16.8
2015	54.2	24.6	3.4	17.8
2016	55.5	24.7	3.6	16.2
2017	55.8	24.0	2.8	17.4
2018	53.8	26.5	2.8	16.9
2019 Q4	54.5	25.8	2.5	17.2

Source: European Central Bank (2020)

slows down. And although it is hard to know the final consequences of the coronavirus, as the world is still struggling with millions<sup>5</sup> of active cases, it is hard not to speculate that we may be entering a new global recession. The coronavirus has hit hardest the largest economies in the world (including the United States, India, Great Britain, and Germany). The World Bank estimates that the pandemic could reduce global GDP by up to 4.8 percent in the worst-case scenario (a Spanish-flu-like pandemic), 3.1 percent in a moderate scenario (like the 1958 flu pandemic), or 0.7 percent in a mild scenario (like the 1968 flu pandemic) (Sieroń, 2020). So far (as of June 2020), the highest number of COVID-19 cases has been recorded in the United States, where the number of daily new cases is still increasing. Could these black clouds be a harbinger of a serious storm in the international financial system and thus a threat to the dominant position of the dollar?

In the first quarter of 2020, US GDP fell by 4.8 percent compared to the previous three months, the largest quarterly decline since the 2008 crisis (Bureau of Economic Analysis, 2020a) (Figure 5). The biggest blow to the economy was the quarantine, which reduced consumer spending by 7.6 percent (consumption accounts for as much as 67 percent of GDP). In addition, nonresidential fixed investment, exports, and inventories have declined. The damage would have been even greater had it not been for the stimulation of GDP through state and federal government spending, which increased by 1.7 percent over in the first quarter of 2020. However, analysts point out that the poor condition in the first quarter was a consequence of only a two-week quarantine. This means that it will prove to have been much worse in the second quarter (Cox, 2020).

In response to the COVID-19 pandemic, the Federal Reserve System hastily lowered the interest rate twice in a row, eventually reducing it to nearly zero (0.00-0.25 percent).<sup>6</sup> Additionally, central banks launched repo transactions (to provide liquidity to the markets and instill confidence in the American currency), the MLF program enabled loans to state and local authorities, and an extensive offer of repayable-aid programs targeted a diverse group of beneficiaries (Board of Governors of the Federal Reserve System, 2020). In the face of the Fed's actions, investors in US stock markets reacted immediately. In March 2020, the stock indexes fell by over 20 percent (Figure 6). For the Dow Jones, the first quarter of 2020 was the worst since 1987, and for the S&P 500 it was the worst since 2008. By May, however, the indexes had risen above their average of the last twelve months, which can be explained by news about a potential vaccine and potential economic recovery (Smith, 2020).

In April 2020, the Department of Labor provided the gloomy information that the US unemployment rate for the month was 14.7 percent. Americans were losing their jobs en masse and resorting to state aid. Initial unemployment claims have exceeded 3 million per week since March 21 and peaked at 6.9 million on the week of March 28. The previous weekly high was about 650,000 during the Great Recession of 2007-2009 (Miller & Labonte, 2020). However, with the relaxation of quarantines and the resumption of economic activity in May 2020, the

<sup>5</sup> On June 29, 2020, there were 4,193,847 active cases (Worldometer, 2020): <https://www.worldometers.info/coronavirus/?fbclid=IwAR1LMKqalqakqKUFQYD6-eTklvc-OafiVXFALWpxS2MTpr6m6WObJEoloAI>

<sup>6</sup> On March 3, the Fed reduced its interest rate by 50 bp, and on March 15, 2020, by another 100 bp.



unemployment rate fell to 13.3 percent. Employment rose sharply in leisure and hospitality, construction, education and health services, and retail trade. However, the Congressional Budget Office projected that the unemployment rate would average 11.4 percent during 2020 before falling slightly to 10.1 percent in 2021. By comparison, unemployment during the Great Recession peaked in October 2009 at 10.0 percent (Bureau of Labor Statistics, 2020).

Although not much data dealing with the United States has yet been published, it seems that the primary factor that will determine the severity of the US problems will be the duration of the

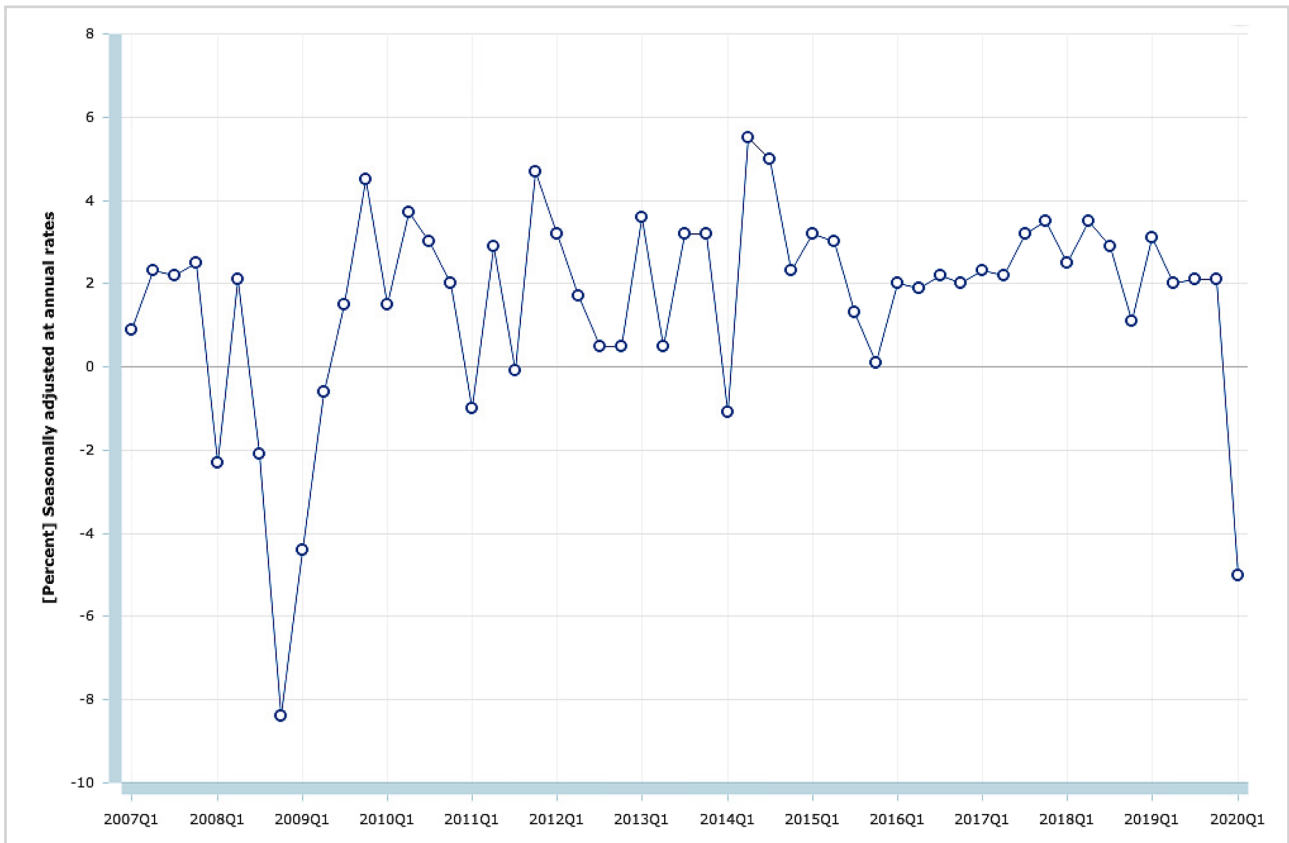


Figure 5:  
 US Real Gross domestic product (% changes by quarter, 2007 to 2020 Q1)

Source: US Bureau of Economic Analysis (2020b)

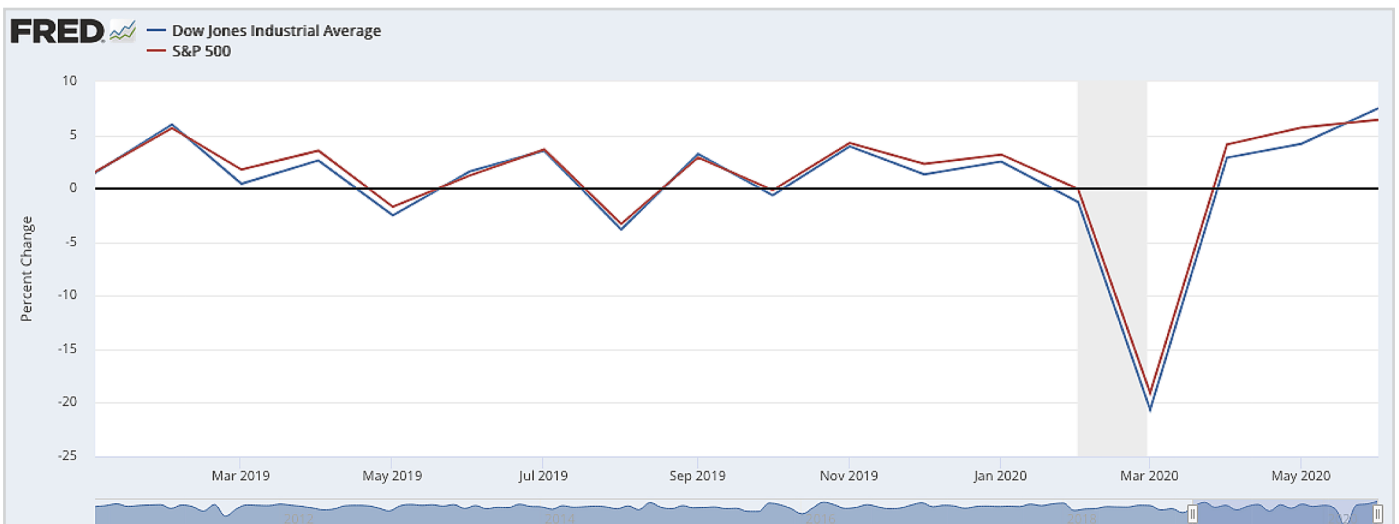


Figure 6:  
 Dow Jones and S&P 500 (% change, January 2019-June 2020)

Source: FRED (2020a)

pandemic. Therefore, it is difficult to predict whether the coronavirus will cause more damage in the long term than the 2008 crisis.<sup>7</sup>

The pandemic has not affected only the demand side of the economy. Of course, a decline in consumer demand reduces GDP, but such a change should bring the economy to a new balance by shaping lower prices with a new structure of supply. The pandemic also has had a strong impact on the supply side of the economy. In the face of a decline in the workforce, industrial production has shrunk and fixed costs and often wages remained the same. Moreover, entrepreneurs have been forced to pay their debts, which increase the likelihood of their bankruptcy. In addition, during a pandemic, most sectors of the economy experience supply disruptions and shortages of intermediate products, which become more and more expensive. Limited economic activity also means lower tax revenues, which, with increasing government spending on fighting the virus, only makes the fiscal deficit and public debt bigger (Sieroń, 2020).

Therefore, the situation in the United States does not look good. The country's debt increased by 249 percent over the twelve years from 2007 to 2019, as noted, and in the first quarter of 2020 it was USD 23.224 million (Federal Reserve Bank of St. Louis. 2020a). In addition, more Americans are unemployed now than during the 2008 crisis, and the drastic decline in employment is the worst since 1939 (Trading Economics 2020 a). In May 2020, production decreased by 15.3 percent compared to May 2019 (Trading Economics, 2020b). Can such an unfavorable situation pose a threat to the dollar's domination? At this point, attempting to answer the question may be like reading tea leaves. The pandemic continues, and the number of cases in the United States continues to grow, with an uncertain second half of the year ahead of us.

On the other hand, because the global crisis of 2008 and growing debt did not hurt the American currency, and because both China and the European Union have also been affected by the current pandemic, the scenario in which the dollar is replaced by another currency in the next few years is rather unlikely (which does not mean that the position of, for example, the euro, the yen, or the renminbi will not become stronger). Moreover, the US currency has been one of the safest havens in times of economic downturn since the 1950s. It is the most liquid currency on the forex market, virtually all commodities (including crude oil) are priced in dollar terms, and the bond market and the entire capital market in the United States the largest in the world. Previously, it was believed that the dollar would lose its global position after the 2008 crisis. This did not happen, and the dollar only gained in value (Figure 7). Then came President Donald Trump's protectionist policies. Again the dollar was expected to lose its reputation as a safe haven. But while trade tensions were evident in the stock and commodities markets, the dollar index rose by 6.4 percent between January and October 2019. The same benchmark index (Figure 7), which measures the value of the dollar against the currencies of other developed



Figure 7:  
 Trade-weighted US Dollar Index (by month, from 2007 to June 17, 2020)

Source: FRED (2020b)

<sup>7</sup> In April, the International Monetary Fund projected the US economy and global economy would shrink by 5.9 percent and 3 percent in 2020, which it described as «much worse than during the 2008–2009 financial crisis.» (International Monetary Fund, 2020b): <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

economies, gained in value in 2020 Q1, which demonstrates an increase in demand for the American currency.

Furthermore, in March 2020, the Fed established new swap lines to lend its currency to other central banks, including those in Asia, South America, and Europe. Thus, the first quarter of 2020 - with the rampant COVID-19 pandemic in the United States - can be summed up in the words of Chris Turner (global head of markets at ING): «If cash is king, then dollar cash currently is world president. Everything that could be sold was sold against the dollar» (Watts, 2020).

### 5. Opportunities and threats for the US dollar

The dollar, despite its steadily increasing supply, has continued to be the dominant world currency in the wake of one of the biggest global crises, that of 2008, and in the face of the COVID-19 pandemic beginning in December 2019. Its strength is evidenced by data presented in this article on its use in the international sphere, both official and private. The dollar is still the leader in the global monetary system. It is the main reserve currency, with the largest share both in international debt and loans and in trade (Figure 8).

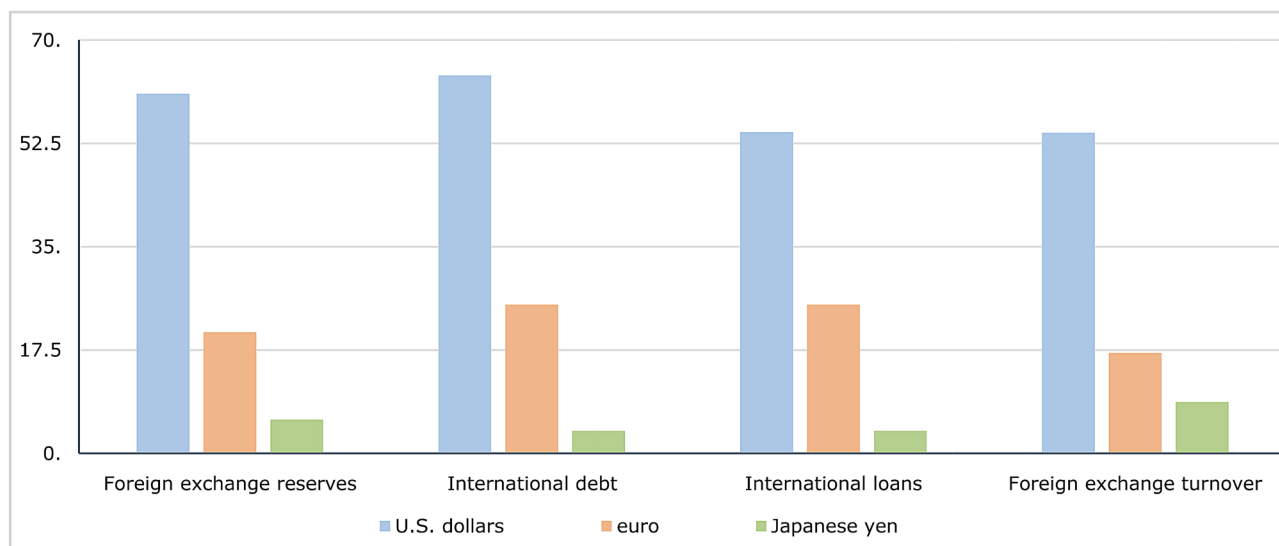


Figure 8:  
**Snapshot of the international monetary system (Q4 2019, %)**

Source: European Central Bank (2020)

After 2008, however, rumors spread of a decline in confidence in the United States. Later, the next threats to the dominant position of the dollar were said to be Trump’s policy and the coronavirus pandemic. Although the statistics published so far have not borne out these concerns, for several years now attention has been paid to the United States’ public debt and loose fiscal policy as factors undermining the role of the dollar as an international currency. Various ideas appear. One of them is the creation of a new global currency, which would consist of a basket of the five most important world currencies (euro, yen, yuan, pound, and dollar) and would be supervised by the International Monetary Fund. Modern special drawing rights (SDRs)<sup>8</sup> would take paper form and replace domestic moneys. Such a scenario is certainly possible, but it would require full cooperation among the most important economies and a long-term perspective (given, among other factors, the need to make available SDRs in commercial and financial transactions and the need to create financial assets denominated in SDRs) (Carbaugh & Hedrick, 2009).

Another possibility is to replace the dollar as the world currency with another currency. The euro, the yen, and the renminbi are possible candidates. Given the situation in the EU and the declining share of the euro in all major international monetary indicators since 2010, this option is rather unlikely. However, the European Central Bank points out that the renminbi is recording an

<sup>8</sup> SDRs are a noncash money created by the International Monetary Fund in 1967. Currently they are a basket of five currencies (euro, yen, yuan, pound, and dollar) and serve, among other functions, to settle the obligations of individual countries under the current balance of payments.

increase in global transactions in foreign exchange markets. Since 2016, it has been included in the global basket of reserve currencies, and its daily turnover has almost doubled in six years. In 2019, the turnover were 4.3 percent, and in 2013 it was 2.2 percent (Bank for International Settlements, 2019). Of course, it cannot be argued that the Chinese currency has posed a great threat to American power so far, especially given the limited development of the Chinese financial market and the bureaucratic structure of political and legal institutions in that country.

The third and most probable scenario is the simultaneous operation of several competing national currencies in international trade. The development of technology and the financial market that facilitates cross-border financial transactions using different currencies reduces the need to use the dollar. In addition, cooperating countries more and more often settle commercial transactions in their own currencies, and nothing indicates they will not continue to do so more and more often. On the other hand, the United States continues to be of great interest to most countries in the world. In addition, all (including not only private individuals but also other central banks) that have invested in US government securities and other dollar-denominated assets have a strong incentive to maintain the dollar's value and role in the international economy (Prasad, 2014, p. 37).

Overall, escape from the dollar is possible, but it would require significant financial and institutional reforms. Therefore, in the absence of any quick solutions aimed at dethroning the dollar, it seems that for now it will remain the leading currency in the world.

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