

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
KYIV NATIONAL ECONOMIC UNIVERSITY
NAMED AFTER VADYM HETMAN**

**Faculty of International Economics and Management
Department of International Economics**

BACHELOR'S DEGREE PROGRAM «INTERNATIONAL ECONOMICS»
FIELD OF KNOWLEDGE 05 Social and behavioral sciences
SPECIALTY 051 «Economy»

Form of education *full-time*

BACHELOR THESIS

Title The role of the US dollar in the modern system of world economic relations

By

Mishchuk Daryna
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(Signature)

Academic Supervisor **Doctor of Science, Professor**
(Scientific degree, academic status)

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**Bachelor Thesis has been approved for defense at
Attestation Examination Commission (EC)**

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KYIV 2023

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AGREED

Head of the project group (guarantor)
of the educational-professional
program

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_____ 2023

APPROVED

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INDIVIDUAL TASK

higher education applicant _____ Daryna Mishchuk

full-time forms of education

Bachelor's Thesis

Title « The role of the US dollar in the modern system of world economic relations »

**The title of the Bachelor's thesis has been approved by the Rector's Order «07»
12.2022 №53**

The Bachelor's Thesis is based on:

Open Ukrainian and foreign sources of scientific knowledge and analytical information, monographs and articles, reports of international organizations and national institutions in the field of the global currency system.

Plan of Bachelor's Thesis and the terms of it submission to the Academic Supervisor

Chapter 1	Theoretical foundations for research of currency systems in the global economy
Chapter 2	Analysis of the US dollar in the modern system of world economic relations.
Object of study:	The development of tools for the global currency system
Subject of study:	Factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations
The purpose of the Thesis:	To provide recommendations for better realization of Ukraine's national economic interests based on a synthesis of theoretical foundations for the development of global currency system tools and a comprehensive analysis of factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations.

Specific tasks applicant has to accomplish to meet the objective:

In chapter 1:

- to examine theories, models of the global currency systems to understand the development and functioning of the US dollar formation;
- to identify the institutions and factors that have influenced the formation development of the global currency system in world economic relations;
- to examine the various indicators and methods of management of currency exchange and risks.

In chapter 2:

- to evaluate the trends in development of the currency structure of international economic relation;
- to evaluate the strategy of USA for development of global demand for the dollar;
- to identify global and national policies for use of the US Dollar in forms of international economic relations;
- to investigate scenarios and perspectives for usage of the US Dollar in global and Ukrainian economies.

**The task has been set
by the Academic Supervisor**

(signature)

Denys Ilnytskyy

_____ 2023

**The task was received by
the acquirer**

(signature)

Daryna Mishchuk

_____ 2023

Abstract

The Bachelor's thesis comprises 87 pages, 1 table, 9 figures, the bibliography list consists of 59 names.

« The role of the US dollar in the modern system of world economic relations »

The object of study is the development of tools for the global currency system.

The subject of the study is factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations.

The objective of the Bachelor Thesis is to provide recommendations for better realization of Ukraine's national economic interests based on a synthesis of theoretical foundations for the development of global currency system tools and a comprehensive analysis of factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations.

In accordance with the set objective, the following tasks were defined:

- to examine theories, models of the global currency systems to understand the development and functioning of the US dollar formation;
- to identify the institutions and factors that have influenced the formation development of the global currency system in world economic relations;
- to examine the various indicators and methods of management of currency exchange and risks;
- to evaluate the trends in development of the currency structure of international economic relation;
- to evaluate the strategy of USA for development of global demand for the dollar;

- to identify global and national policies for use of the US Dollar in forms of international economic relations;
- to investigate scenarios and perspectives for usage of the US Dollar in global and Ukrainian economies.

Practical task of the obtained results. Based on the assessment of the influence of the US dollar on the development in world economic relations and Ukraine economy, an assessment of the effectiveness of the strategies is provided. Scenarios and recommendations regarding the role of USD in Ukraine are evaluated. These recommendations can be used in practice during the realization of Ukraine's national economic interests.

The year of completion of the Bachelor's thesis 2023

The year of thesis defense 2023

Keywords: currency, USD, international economics, DXY, reserve currency exchange, the Bretton Woods system , the Genoa system , the Paris system , the Jamaican system, COVID-19, war in Ukraine, Indicators, Credit rating, international relationships.

REVIEW
of the qualification bachelor thesis
of the student of the Faculty of International Economics and Management
educational program International economics
Mishchuk Daryna

Title: The role of the US dollar in the modern system of world economic relations

- 1. Relevance of the topic:** The topic of the research is of high relevance for several reasons, which outline the necessity of economic actors being in line with global trends in use of economic instruments like currency. The experience of USA in economic development based effective combination of economics and political economy is of great interest for recovery of Ukrainian economy and rebuilding a highly competitive national model. Understanding positive and negative aspects of modern global currency system and especially role of US Dollar will also help in meeting national economic interests.
- 2. Positive features of the qualifying Bachelor's thesis:** the paper is an original, independent, meaningfully diverse study in which the author makes an attempt to systematize information from various sources on a topic that is gaining relevance in times of challenged currency stability and growing interest in cryptocurrencies. The factors, indicators, institutions, trends of development of currency structure of international economic relations are summarized.
- 3. The presence of independent developments of the author:** the author on the basis of expert opinions and analysis of primary sources made an attempt to assess the effectiveness of the US strategy for development of global demand for dollar and analyse global and national policies for use of US Dollar in forms of international economic relations.
- 4. The value of theoretical conclusions and practical recommendations:** the drawn conclusions and the proposed recommendations are sufficiently substantiated and can be recommended for use during the process of improvement of national and corporate policies and strategies for usage of USD in global and Ukrainian economies.
- 5. The presence of shortcomings:** the work corresponds to the current level of competencies of the student; contains minor stylistic flaws and is limited by the author's abilities to access and analyse sources of scientific and analytical literature.
- 6. General assessment of the bachelor's thesis and its admission to the defence examination board:** the work is performed at an appropriate level and can be recommended for presentation and defence before the examination board. The total score is 42 points.

Academic Supervisor:
Doctor of Economics, professor of
the Department of International Economics

D. O. Ilnytskyy
(signature) (name, surname)

_____ 2023

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INTRODUCTION

Actuality of theme. In the modern system of world economic relations, the role of the US dollar has a paramount importance, the strength of the dollar is equal to 104% against a basket of major currencies. The US dollar is the main reserve and most widely used currency in the world. It accounts for up to two-thirds of the world's national foreign exchange reserves. Also, from 40 to 60% of financial transactions in the world are calculated in US dollars.. The work delves into the intricate dynamics surrounding the US dollar and its impact on the global economy, all aspects related to the US dollar's position in the global currency system, its influence on international economic relations, and its usage within the Ukrainian economy. The results of the work may be used for Ukraine in the post-war recovery period in formulating effective strategies and policies to maximize the benefits and mitigate the risks associated with the use of the US dollar in Ukraine's international economic interactions.

In my thesis, the question of the US dollar within the modern system of world economic relations analyzed. The highlighting key trend in the development of the currency structure of international economic relations, including global and national policies for use of US Dollar in forms of international economic relations and how it delves into the strategies employed by the United States to enhance global demand for the US dollar and obtain its perspectives in the global and Ukrainian economies.

The object of the study is the development of tools for the global currency system.

The subject of research is factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations.

The purpose of the research is to provide recommendations for better realization of Ukraine's national economic interests based on a synthesis of theoretical

foundations for the development of global currency system tools and a comprehensive analysis of factors, institutions, trends, policies, strategies, scenarios, and prospects regarding the use of the US dollar in international economic relations.

The thesis aims to explore the theory of formation of the global currency system, including defining key concepts, presenting relevant models, and understanding its functions in international economic relations. Additionally, the thesis seeks to identify and analyze the factors and institutions that contribute to the development of the global currency system, encompassing economic, political, and historical dimensions. Furthermore, the thesis aims to investigate the indicators and methods used for managing currency exchange and associated risks within the global currency system. It also aims to examine the state and key trends in the development of the currency structure of international economic relations, including state and national currency reserves, as well as the functioning of the foreign exchange market. Moreover, the thesis will explore the strategy of the United States for developing global demand for the dollar and analyze global and national policies regarding the use of the US dollar in various forms of international economic relations. Finally, the thesis will consider scenarios and perspectives for the usage of the US dollar in both the global and Ukrainian economies, providing insights into potential implications and outcomes.

The deep understanding of the USD in the global dollar in the modern system of world economic relations can be made through analysis of the latest research and publications. The latest trend was researched by many foreign and national scientists including Hessen A., Popova A., Shendrikova A. and Lepcha M, Glover G., and others. Kirshner J ., a professor of political science and international studies at Boston College, states that the rise of the "dollar order" was built on four pillars: the robustness of the U.S. economy, the widespread belief in the American model of finance, the wealth of U.S. financial institutions and America's leading role in international affairs. As a global superpower, the United States has been instrumental in shaping global economic

policies, promoting political stability, and providing aid and assistance to countries around the world. The dollar has been used as a preferred currency for international transactions and as a medium for international aid, further strengthening its position as a dominant currency. However, the question of the essence of the global currency system remains a subject of debate. The ups and downs of the US dollar's exchange rate can have significant consequences for trade balances, the movement of money between countries, and the overall performance of the economy, especially for Ukrainian.

Research methods. In order to tackle the specified tasks in the theoretical part, article analysis, synthesis and classification were used. In analytical part of the research analysis, scientific data, calculations, modelling and forecasting methods were used.

Source base. The diploma work based on the theoretical part of the work consists of articles and works of domestic and foreign scientists and practitioners. In the analytical part of the work statistical data from the Investopedia, Trade View, World Bank Group, Database Statistics at the National Bank of Ukraine, reports of rating agencies (The Consumer Price Index, the S&P 500 Index, DXY Index, The Federal Reserve's Broad Index and so on) are taken as a source of statistical data.

Structure of work. The qualifying bachelor thesis consists of 87 pages with an introduction, two chapters with 1 table and 9 figures, a conclusion, 59 bibliography and appendices.

CHAPTER 1. THEORETICAL FOUNDATIONS FOR RESEARCH OF CURRENCY SYSTEMS IN THE GLOBAL ECONOMY

1.1. Theory of formation of the global currency system: definitions, models, and functions

The formation of a global currency system is a complex and multifaceted process that involves several key elements. These include recognizing the potential benefits of a global currency system, building consensus among nations, selecting or creating a suitable currency, developing infrastructure and technological capabilities, establishing governance and coordination mechanisms, and promoting economic cooperation and policy coordination among participating nations. It is important to acknowledge that the formation of a global currency system is challenging and requires extensive international cooperation and consideration of various economic, political, and technological factors. The specific path to forming a global currency system depends on the evolving global economic landscape and the willingness of nations to embrace such a system.

A lot of theories used to describe the global currency system, it depends on some factors as period, time, and input of globalization to international economics. The theories shed light on different aspects, including the role of dominant currencies, the impact of monetary policies, and the influence of economic integration, but there are 10 main theories that connected with modern times:

- 1) Fiat Currency Theory;
- 2) Dominant Currency Theory;
- 3) Optimum Currency Area Theory;
- 4) International Monetary System Evolution Theory;
- 5) Digital Currency Theory;

- 6) Reserve Accumulation Theory;
- 7) Political Economy of Currency Theory;
- 8) Currency Wars Theory.

Fiat Currency Theory suggests that the global currency system is based on fiat currencies, where the value of money is not backed by a physical commodity but by the trust and confidence of the users. Fiat money is money that the government declares as legal tender [34]. Also, this type of money is not backed by a physical commodity such as gold or silver. The concept of modern fiat currency came into prominence during the 20th century, specifically with the abandonment of the gold standard and the establishment of central banks. This shift marked a significant departure from commodity-backed money and signaled a transition to a system where the value of currency is primarily determined by government decree and the trust placed in it. The move away from the gold standard allowed for greater flexibility in managing monetary policy and gave central banks the authority to regulate the money supply and influence economic factors. The value of fiat currency is often influenced by the performance of the issuing economy, giving significant weight to economic factors. Additionally, central banks wield considerable influence over the economy, as they possess the authority to regulate the money supply.

According to the dominant theory, the global currency system is characterized by the dominance of a single currency, such as the US dollar, which serves as a key reserve currency and is widely accepted in international transactions. In terms of pricing and invoicing, the dominant currency plays a central role. It is commonly used as the primary currency for pricing goods, commodities, and financial assets in international markets [35]. The dominant currency is supported by a robust financial infrastructure, including well-developed banking systems, payment networks, and clearing mechanisms. This infrastructure ensures the smooth flow of funds and enables efficient settlement of cross-border transactions.

Optimum Currency Area Theory focuses on the idea that countries with strong economic integration and similar economic characteristics are better suited to share a common currency, forming currency unions like the Eurozone. OCA theory was developed in 1961 by Canadian economist Robert Mundell based on earlier work by Abba Lerner. The idea of having a common currency can bring about maximum economic efficiency, but it requires meeting certain conditions. By meeting these criteria, a common currency can potentially enhance economic efficiency and facilitate smooth economic cooperation within a region, these conditions include a large and integrated labor market, flexibility in pricing and wages, along with capital mobility, a centralized budget or control and to have similar business cycles and economic data timing [36]. It's beneficial if the participating regions have similar patterns in their economic cycles and release economic data at similar times. This helps to prevent shocks from affecting one area more severely than others.

International Monetary System Evolution Theory examines the historical evolution of the global currency system, considering factors such as the gold standard, Bretton Woods system, and the transition to floating exchange rates. Since the breakdown of the Bretton Woods System, there has been a lack of a formal International Monetary System. Instead, the current International Financial Architecture operates under a managed float system. This system allows all currencies of different countries to freely fluctuate against each other in an open market, with government intervention occurring only when necessary to stabilize a currency. The managed float system has been in effect since 1976 when it was established through the Jamaica Agreement. Initially regulated by the G-5 countries, the International Financial Architecture's oversight was later transitioned to the G-20 group. The G-20, comprised of 20 countries, now collaboratively manages exchange rates within the framework of the managed float system [37;38].

With the rise of cryptocurrencies and digital payment systems was introduced digital currency theory this theory examines the potential impact of digital currencies on the global currency system, including issues of regulation, security, and cross-border transactions. The creation and implementation of digital currencies have occurred over the past decade, with Bitcoin being the first and most influential, followed by the development of various other cryptocurrencies and blockchain-based platforms. The crypto industry is experiencing rapid innovation, leading to the emergence of new concepts such as non-fungible tokens (NFTs) and the metaverse, for instance, if citizens acquire cryptocurrencies within the metaverse, it could contribute to their overall net wealth. If these digital assets are then transferred from the metaverse to the real world and hold significant value, it could have a collective impact on demand and stimulate economic growth. Anyway, Cryptocurrencies pose various dangers in the realm of international economics. These include their inherent volatility, which can create uncertainty and affect international trade and financial stability. Regulatory concerns and inconsistent frameworks across countries present challenges for cross-border transactions and integration into the global financial system. The potential for money laundering and illicit activities, along with cybersecurity risks, further raise concerns about financial integrity and stability. Understanding and addressing these risks are crucial for policymakers and international organizations to ensure the responsible and secure adoption of cryptocurrencies in the global economy [39].

Reserve Accumulation Theory explores the role of countries accumulating foreign currency reserves, particularly major currencies, to manage exchange rate risks and support their own currencies, affecting the global currency system. Reserve accumulation by countries is influenced by a range of factors. These include trade balance, capital flows, exchange rate policy, external debt levels, financial stability objectives, export dependency, external vulnerabilities, exchange rate management, capital account restrictions, confidence and credibility, monetary policy autonomy,

international payment obligations, and the global reserve currency status. Countries accumulate reserves to manage currency fluctuations, support trade competitiveness, mitigate external shocks, ensure financial stability, enhance confidence, maintain control over monetary policy, meet international obligations, and signal credibility to investors. The relative importance of these factors varies based on individual country circumstances, policy objectives, and economic conditions.

Political Economy of Currency Theory analyzes the political and economic factors that influence currency choices and policies, such as trade imbalances, geopolitical considerations, and domestic political interests. There are several political agreements that have influenced the USD and its role in international economics:

- Plaza Accord (1985): This agreement involved major economies, including the United States, Japan, Germany, France, and the United Kingdom. It aimed to address global imbalances by coordinating policies to depreciate the USD against other major currencies, primarily the Japanese yen and the Deutsche Mark;
- Louvre Accord (1987): Following the Plaza Accord, the Louvre Accord aimed to stabilize exchange rates and prevent excessive currency volatility. The agreement involved major economies, and its objective was to maintain relative exchange rate stability, particularly in relation to the USD;
- G7/G8/G20 Summits: These summits bring together leaders from major economies to discuss various economic and political issues, including exchange rates and global financial stability. Agreements and communiqués from these summits can have implications for the USD, as they reflect the collective stance of participating countries;
- International Monetary Fund (IMF) Programs: The IMF provides financial assistance and support to countries facing economic challenges. The conditions and terms of IMF programs, which often involve policy reforms and adjustments, can impact the value and stability of the USD in countries receiving assistance;

- **Free Trade Agreements:** Political agreements on free trade, such as the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP), can influence the USD's role in international trade. These agreements promote economic integration and influence the flow of goods and services, impacting the demand for and value of the USD.

Currency Wars Theory focuses on the competition between countries to gain a competitive advantage through currency devaluations or manipulations, which can disrupt the global currency system and lead to tensions between nations. This theory suggests that nations can intentionally weaken their currencies to boost exports, protect domestic industries, and stimulate economic growth. Currency wars typically involve actions such as lowering interest rates, implementing quantitative easing measures, or intervening in foreign exchange markets to influence currency values. The theory emphasizes the potential negative consequences of currency wars, including trade imbalances, retaliatory actions from other countries, and volatility in global financial markets. It highlights the importance of international cooperation and coordination to maintain stability and prevent destructive currency conflicts, one of the great examples nowadays, the US and China.

There are several models that refer to a global currency system. These models represent different approaches to achieving a more integrated and stable global currency system. Each has its advantages and challenges, and the choice of model would depend on factors such as political will, economic considerations, and the willingness of countries to cooperate and adopt new arrangements.

These main three models are:

- Single Global Currency;
- Reserve Currency System or Anchor currency system;
- Basket of Currencies.

Single model currency model advocates for the establishment of a single global currency to be used by all countries. It would involve phasing out national currencies and adopting a unified currency, which could be managed by a global central bank. The aim is to eliminate exchange rate fluctuations, simplify international trade and finance, and promote economic integration on a global scale. The primary purpose of a Single Global Currency is to serve as a universally recognized medium of exchange and a reliable store of value for all nations. By adopting a unified currency, the need for currency conversions in international trade and financial transactions would be eliminated, leading to streamlined and efficient cross-border transactions and reducing the associated costs and complexities caused by exchange rate fluctuations. Furthermore, the implementation of a Single Global Currency would contribute to price stability and predictability in global markets. With the elimination of multiple exchange rates, volatility and uncertainty in international trade would be mitigated, fostering an environment of trust and confidence among market participants. This, in turn, would stimulate investment, economic growth, and seamless financial integration [1].

Also, a Single Global Currency can enhance the effectiveness of monetary policy coordination. Under the oversight of a global central bank, closer collaboration and alignment among nations in setting monetary policies to manage inflation, interest rates, and overall economic stability on a global scale would be facilitated. This coordination would help prevent conflicting policies and manipulations related to individual currencies.

In reserve currency model, a specific currency, such as the US dollar, plays a dominant role as a reserve currency. It is widely held by central banks and used for international transactions. Other currencies, known as anchor or reference currencies, may also be used alongside the reserve currency to provide stability and facilitate exchange rate management. An essential function of the Reserve Currency System is to instill stability and confidence in global financial markets. The reserve currency acts

as a benchmark for other currencies and facilitates the maintenance of exchange rate stability. Its widespread acceptance helps reduce the volatility of exchange rates, thus supporting international trade and investment by minimizing uncertainties for market participants. The reserve currency serves as a means of diversification for countries in managing their foreign exchange reserves. Central banks hold reserves denominated in the reserve currency to ensure liquidity, stability in their domestic currencies, and protection against potential economic shocks. This function assists countries in maintaining confidence in their own currencies and strengthens their overall financial resilience. The system promotes financial intermediation and facilitates international liquidity. Given the wide acceptance of the reserve currency, it can be used for cross-border transactions, trade financing, and lending purposes. This promotes smoother international capital flows, fosters global economic integration, and facilitates the funding of projects and investments across national boundaries. The IMF regularly publishes the aggregated Currency Composition of Foreign Exchange Reserves (COFER). The reserves of the individual reporting countries and institutions are confidential.

The Basket of Currencies model involves creating a composite unit consisting of a basket of currencies. The basket would include a mix of major currencies, such as the US dollar, euro, yen, and pound sterling, with each currency's weight determined by its importance in global trade and finance. This approach aims to reduce reliance on a single currency and provide a more diversified and balanced global currency system. It serves as a reference for exchange rates, a unit of account for international transactions, a reserve asset, and promotes cooperation among participating countries.

The global currency system serves as a versatile cornerstone of the global economy, encompassing a multitude of functions. It plays a pivotal role in facilitating international transactions, streamlining the process of conducting business across national borders. It acts as a catalyst for frictionless cross-border transactions,

alleviating the complexities and uncertainties associated with currency exchange. By providing a stable and dependable medium of exchange, it underpins the expansion of global commerce and contributes to the maintenance of economic stability.

In addition to its economic functions, the global currency system assumes a crucial role in nurturing a sense of international economics solidarity. By fostering cooperation among nations in the realms of monetary policy, trade agreements, and fiscal measures, it cultivates a shared responsibility and a common pursuit of mutual goals [2].

There are some functions that should be underlined and explained as:

1. **Medium of Exchange:** It serves as a universally accepted medium for conducting international transactions, streamlining trade processes, and eliminating the necessity for currency conversions. It facilitates seamless trade processes by providing a common currency that is accepted worldwide;
2. **Store of Value:** The system enables individuals and businesses to preserve and hold;
3. **Unit of Account:** It establishes a standardized unit for pricing, valuing, and comparing goods, services, and assets on a global scale;
4. **Facilitates International Trade:** By providing a shared currency for trade settlements, it facilitates smoother and more efficient international trade operations;
5. **Mitigates Exchange Rate Volatility:** The global currency system helps minimize fluctuations in exchange rates, reducing uncertainties and risks associated with international trade and investments;
6. **Enhances Coordination of Monetary Policies:** It promotes greater collaboration and coordination among central banks, allowing for more effective management of inflation, interest rates, and overall economic stability;

7. **Supports Financial Stability:** The stability and liquidity provided by the global currency system contribute to financial stability, reducing the likelihood of financial crises and instilling confidence among investors;
8. **Promotes Economic Integration:** The global currency system facilitates financial intermediation, cross-border investments, and the flow of capital, fostering global economic integration and widening access to financing opportunities;
9. **Reduces Transaction Costs:** By eliminating the need for currency conversions, the system lowers transaction costs for individuals and businesses involved in international trade and financial activities;
10. **Encourages Economic Cooperation:** Through the alignment of monetary policies, fiscal measures, and trade agreements, the global currency system encourages economic cooperation among nations, promoting stability, balanced growth, and the equitable distribution of benefits.

The US dollar has emerged as the preeminent reserve currency worldwide, enjoying widespread adoption in international trade and finance. Numerous nations hold significant reserves in USD to bolster the stability of their domestic currencies and ensure economic security. The USD's role as a global currency affords advantages including ample liquidity, stability, and broad acceptance across borders. Nevertheless, it is essential to acknowledge that the global currency system encompasses more than just the USD, encompassing a range of currencies and models designed to foster stability, efficiency, and collaboration in the realm of international finance. Diverse approaches and alternative currencies contribute to the overarching goal of a well-functioning and balanced global monetary system. As it was mentioned before, a various of countries hold significant reserves in US dollars (USD). Some of the major holders of the USD reserves include:

- China holds the largest amount of foreign exchange reserves globally and significant portion of which is in the USD. The USD serves as a key component of China's foreign exchange reserve portfolio;
- Japan is another major holder of the USD reserves. The country's central bank maintains substantial holdings of the USD to support its currency and stabilize its economy;
- Although the euro (EUR) is the primary currency used within the European Union (EU), many member countries still hold USD reserves as part of their foreign exchange holdings;
- An oil-exporting nation, Saudi Arabia, accumulates USD reserves from oil sales and uses them to support its currency and manage its economy;
- Russia holds a significant amount of USD reserves, although in recent years, it has been reducing its dependence on USD and diversifying its foreign exchange reserves into other currencies, but after Russian's invasion of Ukraine, the position was changed by different sanctions and impeding Russia's access to US dollars is a significant component of the sanctions imposed in response to its invasion of Ukraine. Certain experts speculate that this strategic employment of the currency to weaken a "rogue nation," coupled with the potential fracturing of the global economy, could exert a burdensome effect on the currency itself, possibly expediting an ongoing process [3].

The USD plays a significant role in international economic stability due to its status as the dominant reserve currency, its widespread acceptance in global trade and investment, the depth and liquidity of the global financial markets. The USD's importance fosters confidence, facilitates global transactions, and contributes to the stability of the international financial system.

1.2. Factors and institutions of development of the global currency system.

The global currency system is a complex network influenced by many interconnected factors and institutions. These elements continuously interact and evolve, shaping the system's development as time goes on.

Key factors and institutions have crucial roles in determining the stability, exchange rates, and overall operation of the global currency system. Key factors and institutions involved in the process of the global currency system:

- Reserve Currencies;
- Financial Markets;
- Trade and Capital Flows;
- Economic Policies;
- Regional and Bilateral Agreements.

Reserve currencies are currencies held by central banks and used internationally. They have a major impact on the global currency system. The U.S. dollar has traditionally been the primary reserve currency, followed by the euro, Japanese yen, British pound, and Swiss franc. The stability and economic strength of these currencies contribute to their status as reserves.

Financial markets, including foreign exchange markets, impact the global currency system. These markets facilitate currency trading, determining exchange rates based on supply and demand. Banks, hedge funds, and multinational corporations actively contribute to the functioning and development of the global currency system through their trading activities.

International trade and capital movements affect the global currency system. Trade imbalances, export-import relationships, and capital flows influence exchange rates and currency values. Countries with significant trade surpluses or deficits can influence their currency's value and impact the system's stability.

National economic policies, such as fiscal and monetary policies, have implications for the global currency system. Policies that promote economic stability, growth, and sound fiscal management contribute to a stable currency system. Economic crises, policy changes, and divergent approaches among countries can create volatility and affect the global currency landscape.

Regional economic blocs, like the European Union (EU), introduce shared currencies (e.g., the euro) and regional monetary policies that influence the global currency system. Additionally, bilateral agreements between countries can impact currency exchange rates and trade relationships, affecting the overall development of the global currency system, because of that the institutions play a huge role in the development of the global currency as:

- International Monetary Fund (IMF);
- World Bank;
- Central banks ;
- Group of Seven (G7).

The IMF is a global organization that promotes monetary cooperation, stability, and economic growth. It provides financial aid to member countries, monitors global economies, and offers policy guidance. The IMF plays a crucial role in addressing currency issues, maintaining exchange rate stability, and facilitating international monetary cooperation.

Provides loans and grants to governments for development projects. Supports economic development and poverty reduction, indirectly impacting the global currency system.

Central banks, such as the Federal Reserve , European Central Bank (ECB), and Bank of Japan (BOJ), have significant influence over their respective currencies and the global currency system. They implement monetary policies, manage interest rates, intervene in currency markets, and ensure exchange rate stability.

Informal group of major advanced economies as G7 countries discussing global economic issues, including currency matters, The group aims to enhance economic stability, sustainable growth, and financial cooperation among its members. Their economic policies, including monetary and fiscal measures, can influence currency values and exchange rates. Discussions within the G7 can shape market expectations and impact investor sentiment towards currencies. Members often coordinate their efforts to manage currency exchange rates, avoid excessive volatility, and address macroeconomic imbalances. However, it's important to note that currency matters are complex and subject to various factors beyond the control of individual countries or the G7.

All these institutions also participated in Ukrainian development of the global currency system, for example, National Bank of Ukraine (NBU) serving as the country's central bank, the NBU assumes the crucial responsibility of formulating and executing monetary policies within Ukraine. Its primary objective revolves around managing the Ukrainian hryvnia (UAH), the national currency, and ensuring stability within the domestic currency market. Through its policies and interventions, the NBU wields influence over the exchange rate of the UAH and its integration into the global currency system. Economic Reforms influence on the Ukrainian government's implementation of economic reforms significantly shapes the development of the global currency system within the country. By enacting structural reforms aimed at enhancing economic stability, attracting foreign investment, and bolstering competitiveness, Ukraine can create an environment that appeals to international investors and contributes to currency stability.

Foreign Trade and Investments used for Ukraine's foreign trade activities and investments carry implications for its position within the global currency system. Fluctuations in the value of the UAH can impact the country's export competitiveness, import prices, and capital flows. Moreover, trade relationships, including bilateral

agreements and regional integration efforts, play a role in shaping Ukraine's currency system. The International Monetary Fund (IMF) has played a significant role in supporting Ukraine's economy through financial assistance programs. Such programs often come with conditions related to economic reforms and fiscal policies, which can have an influence on Ukraine's currency system and contribute to exchange rate stability within the country. Ukraine's geopolitical situation and its relations with neighboring countries have ramifications for its currency system. Political tensions, regional conflicts, and geopolitical shifts introduce volatility and uncertainty, which can impact the stability and development of Ukraine's currency system. As Foreign Exchange Market Participants, there are various market participants in Ukraine, including banks, corporations, and individuals involved in foreign system.

At the present stage, international currency and financial relations are characterized by rapid development, transforming this system into the most mobile and dynamic entity within the structure of international economic relations. Regulating the sphere of international settlements and currency markets to ensure sustainable development of the global economy is the primary purpose of the global currency and financial system.

There are two main functions of the global currency and financial system:

- Creating favorable conditions for the development of production and international division of labor.
- Ensuring the uninterrupted functioning of its structural elements. At this stage, the international currency and financial system does not adequately fulfill these functions, as evidenced by currency and financial crises in many countries worldwide, including Ukraine. Therefore, the issue of reforming and improving the existing currency system remains relevant.

Each evolutionary stage of the global monetary system has been characterized by specific internal contradictions, their accumulation, and intensification, which led to the

transformation of the global monetary system and its transition to a new stage. During its development, the global monetary system has gone through several stages to the present stage for each with its own factors. The Paris system, the Genoa system, the Bretton Woods system and the Jamaican system are four global currency systems that distinguished global currency system evolution:

1. the Paris system (1867)

The first international monetary conference was held in 1867 in France, in Paris, The Paris currency system was established in 1867 during an international conference attended by representatives from major countries. The driving force behind this conference was Félix Esquirou de Parieu, a French statesman who had proposed the Latin Monetary Union. The conference approved a plan that proposed adopting a single gold standard, decimalizing currencies, and aligning various currencies with the French currency system. The gold standard is a monetary system in which the value of a country's currency is directly linked to a specific amount of gold. Under the gold standard, the currency can be exchanged for gold at a fixed rate. This system provides stability and confidence in the currency as it is backed by a tangible asset (gold). The gold standard was historically used by many countries as a basis for their monetary systems, but its use has declined significantly in modern times. Decimalisation of currencies refers to the process of transitioning from a non-decimal currency system to a decimal-based currency system. In a decimal currency system, the currency is divided into units based on powers of 10, for example, in a decimal currency system, a unit can be divided into 100 smaller units (cents or pence). Before decimalisation, some currencies used non-decimal subdivisions, such as shillings and pence in the British pound or francs and centimes in the French franc. Decimalisation simplifies currency calculations and facilitates easier transactions by using a consistent decimal-based system. The process of decimalisation typically involves changing the denominations and coins in circulation, updating pricing systems, and educating the public about the

new currency structure. Decimalisation has been implemented by several countries around the world to modernize their currency systems and streamline financial transactions. Decimalisation of currencies in Ukraine refers to the transition from a non-decimal currency system to a decimal-based system. Prior to decimalisation, Ukraine's currency, the hryvnia (UAH), used a non-decimal subdivision known as kopyyka. Under the decimalisation process, the currency was simplified to divide into 100 equal parts, with one hryvnia equaling 100 kopykas [4].

2. the Genoa system (1922)

The Genoa Conference, held in Genoa, Italy in 1922, was a major international conference that aimed to address the post-World War I economic and financial challenges facing Europe. The conference was attended by representatives from 34 countries, including major world powers and economic players. The primary goal of the Genoa Conference was to stabilize currencies, promote economic cooperation, and restore financial stability in war-torn Europe. The conference focused on discussions related to reparations, war debts, trade policies, and the establishment of an international monetary system. The United States did not participate in this conference, explaining that it is not purely economic in nature, but rather political. The United States was represented by an observer — Ambassador to Italy R. Child.

The key changes made as a result of the conference:

- **Reparations and War Debts:** The conference initiated discussions on reparations owed by Germany and war debts owed by various countries. While no comprehensive solution was reached at Genoa, it laid the groundwork for future negotiations on these issues;
- **Gold Standard and Exchange Rates:** The conference recognized the importance of stabilizing exchange rates and discussed the role of gold in the international monetary system. Although no specific agreement was reached, the discussions contributed to later efforts to restore the gold standard;

- **International Monetary Cooperation:** The conference established the Bank for International Settlements (BIS) in Basel, Switzerland. The BIS aimed to promote monetary and financial stability, facilitate cooperation among central banks, and serve as a forum for discussions on international economic matters;
- **Economic Cooperation:** The Genoa Conference emphasized the importance of economic cooperation among nations. It called for increased trade, the reduction of trade barriers, and the promotion of economic growth through collaboration and agreements;
- **Soviet Union's Participation:** The conference marked the first major international gathering where the newly established Soviet Union participated. This inclusion facilitated discussions on economic cooperation and trade relations with the Soviet Union;
- **Naval Disarmament:** The conference addressed the issue of naval disarmament, with discussions centered on reducing naval arms and promoting peace. While no binding agreements were reached, it contributed to the broader movement for disarmament during that period;
- **Recognition of National Borders:** The conference recognized and affirmed the borders of several nations in Europe, particularly those that had undergone significant changes following World War I;
- **Financial Aid and Reconstruction:** The conference discussed financial aid and reconstruction efforts for war-damaged regions, particularly Eastern Europe. However, no comprehensive plans or commitments were made during the conference.

The Genoa Conference did not lead to immediate and comprehensive solutions to all the economic challenges of the time, it played a significant role in laying the groundwork for future initiatives and discussions on economic cooperation, financial stability, and international relations[6].

3. the Bretton Woods system (1944)

The Bretton Woods Agreement was held in July 1944 by delegates from 44 countries at the United Nations Monetary and Financial Conference held in Bretton Woods. The gold was as a basis for US dollar on that conference,

The Bretton Woods System operated with the U.S. dollar as its foundation, backed by gold, while other currencies maintained fixed exchange rates against the U.S. dollar. However, the system's viability diminished in the early 1970s when President Richard M. Nixon declared that the United States would discontinue the practice of exchanging gold for U.S. currency, marking the conclusion of the Bretton Woods System. The Bretton Woods System elevated the U.S. dollar to a position of prominence in the global economy. It became the primary reserve currency, widely accepted for international transactions and held by central banks as a store of value. The system introduced the ability for countries to implement capital controls to regulate the flow of capital across their borders. This allowed governments to manage their domestic economies and maintain monetary discipline. Also, the system included mechanisms for countries to address imbalances in their balance of payments, such as through devaluations or revaluations of their currencies. This helped maintain equilibrium in international trade and payments [7].

4. the Jamaican system (1976).

The Jamaican system, also known as the Kingston Agreement, was a significant reform of the international monetary system that took place in 1976 during the International Monetary Fund (IMF) meeting held in Kingston, Jamaica. The Jamaican system was designed to make the international monetary system more flexible and adaptable to the different needs and conditions of countries around the world. It recognized that the global economy is diverse and requires different policies. This system allowed for more flexibility in exchange rates and gave countries more control over their own monetary policies, due to that there were several changes in comparison

with the previous three system in flexible exchange rates, the end of the period of Gold Standards, new drawing rights, devaluation and revaluation of the Jamaican system (Appendix A).

As a result, the evolution of the global currency system has undergone several significant changes over the year that went through Gold Standard Era, Interwar Period, the beginning and the end of the Bretton Woods System, Rise of the U.S. Dollar Dominance, Euro and the Eurozone and Emerging Market Currencies. In the beginning, many countries adopted the gold standard, where the value of their currency was fixed to a specific amount of gold. The British pound sterling played a dominant role during this period, as the British Empire was a major economic and political power, then the gold standard faced challenges during and after World War I, and many countries temporarily abandoned it. The U.S. dollar emerged as a leading currency due to the relative stability of the U.S. economy.

As a result, The Bretton Woods conference established a new international monetary system, that called The Bretton Woods system. The U.S. dollar was designated as the global reserve currency, and other currencies were pegged to the dollar. The International Monetary Fund (IMF) and the World Bank were created to promote global monetary stability and economic development. Unfortunately, The U.S. suspended the convertibility of the dollar into gold, effectively ending the fixed exchange rate system and currencies began to float freely, and exchange rates became more market-driven. Despite the collapse of the Bretton Woods system, the U.S. dollar remained the dominant global currency. The U.S. dollar's status was supported by the strength of the U.S. economy, its central role in international trade, and the deep liquidity of U.S. financial markets, but since 1999 to nowadays the euro was introduced as the common currency for several European Union (EU) member countries. The euro quickly became a significant player in global currency markets and has been adopted by 19 EU member states and at the same time The growing influence of emerging

economies, such as China, has led to increased international use of their currencies, such as the Chinese yuan. These currencies have been included in global reserve holdings and are increasingly used in international trade.

1.3. Indicators and methods of management of currency exchange and risks

The utilization of indicators for currency exchange is essential in formal finance practices. These indicators provide valuable insights into currency movements, aiding in informed decision-making and risk management. They enable individuals and businesses to forecast exchange rate fluctuations, optimize financial strategies, and mitigate risks. By incorporating indicators, policymakers can evaluate the effectiveness of economic policies and make necessary adjustments. The use of indicators enhances economic analysis, fosters understanding of global economic dynamics, and facilitates accurate financial planning in the realm of currency exchange.

There are a lot of different indicators in which currency can be used, but there are main to evaluate currency exchange, they divided into 6 indicators:

- Economic Indicators (GDP, CPI, Employment data as KPI);
- Financial Indicators (S&P 500 Index, and credit ratings) ;
- Technical Indicators (commonplace technical indicators encompass moving averages, relative strength index (RSI), and Bollinger Bands);
- Sentiment Indicators (Consumer Sentiment Index, CBOE Volatility Index);
- Policy Indicators (Monetary and fiscal policy);
- Geopolitical Indicators (GPI, Democracy Index, GCI, GTI) [8].

Economic Indicators includes Gross Domestic Product that represent the basis size of the country's economy, the dollar value of goods and services that have been produced within that country, as usual generated such information once per year. The GDP may also be thought of as the basic size of the country's economy. Changes in the

GDP reveal changes in economic growth and can directly impact the relative value of a country's currency. A high GDP reflects larger production rates, an indication of greater demand for that country's products. An increase in demand for a country's goods and services often translates into increased demand for the country's currency.

The Consumer Price Index (CPI) is an essential indicator used by investors and economists to track changes in the prices of goods and services commonly bought by households in a country. It helps measure inflation rates. When prices on the CPI rise, it indicates that the purchasing power of the country's currency is weakening. This becomes more significant if the inflation rate is higher compared to other countries. Inflation erodes the value of money, making it less valuable in terms of what it can buy.

Employment data plays a significant role in assessing a country's exchange rate. When a country experiences higher employment rates, it signifies a strong demand for the production of its goods and services. This increased demand implies that the value of the country's currency tends to be higher. The connection between employment rates and exchange rates can be understood through the concept of demand. When there is a greater demand for a country's products and services, it necessitates a larger workforce to meet the production needs. This higher demand often indicates that the country is engaging in more exports, leading to an increase of foreign currency being exchanged in favor of the home country. The last that refer to economic indicators is Inflation Rate that widely used to forecast the exchange rate of a specific country, the interest rate set by the central bank. Investors as usual more attracted to countries that offer higher interest rates compared to those with relatively lower rates. Higher interest rates provide the potential for increased returns on investments, making countries more appealing for investors seeking better profitability.

Financial indicators hold a central significance in evaluating the fiscal performance and stability of a nation, thereby exerting a profound influence on the attractiveness of its currency. Pertaining specifically to the US dollar, significant

financial indicators encompass interest rates, exemplified by the Federal Reserve's federal funds rate, bond yields like the esteemed US Treasury yields, stock market performance epitomized by the S&P 500 Index, and credit ratings. These indicators collectively illuminate the robustness of the US economy, the influence of monetary policy decisions, investor sentiment, and the level of market trust in the USD [9].

Technical indicators serve as valuable tools for traders and analysts, enabling them to scrutinize historical price and volume data in order to anticipate future price movements. In the realm of currency evaluation, including the USD, commonplace technical indicators encompass moving averages, relative strength index (RSI), and Bollinger Bands. For sure These indicators empower traders to identify patterns, discern trends, and pinpoint potential entry or exit points within the currency market.

Sentiment indicators, on the other hand, provide a means to gauge market sentiment or investor sentiment towards a particular currency. Such indicators prove instrumental in comprehending the overarching market atmosphere and predicting potential movements within the currency market. In the case of the USD, sentiment indicators encompass surveys, market sentiment indexes like the Consumer Sentiment Index, and measures of market volatility such as the CBOE Volatility Index (VIX). The CBOE Volatility Index (VIX) is a widely recognized indicator that measures market volatility and investor sentiment in the United States. It is often referred to as the "fear gauge" or "fear index" because it reflects the level of expected price fluctuations in the stock market. Positive sentiment towards the USD may indicate heightened demand and fortitude within the currency.

Policy indicators pivot around the actions and decisions undertaken by central banks, particularly the US Federal Reserve, as well as government policies that impinge upon the USD. Key policy indicators for evaluating the USD encompass interest rate determinations by the Federal Reserve's Federal Open Market Committee (FOMC), monetary policy declarations, and fiscal policies enacted by the US government. These

policy verdicts and measures wield considerable influence over the value of the USD, affecting factors such as interest rate differentials and investor expectations.

Geopolitical indicators encapsulate political and geopolitical events capable of impacting currency exchange rates, including the USD. The Global Peace Index, produced by the Institute for Economics and Peace, measures the relative peacefulness of countries and regions based on indicators such as levels of violence, political instability, and militarization. The Global Competitiveness Index made by the World Economic Forum, assesses the competitiveness of countries based on various economic and institutional factors. It provides insights into a country's economic strength and potential for growth. The Global Terrorism Index, published by the Institute for Economics and Peace, measures the impact of terrorism and the level of terrorist activities in countries based on various indicators such as incidents, deaths, and economic cost. The Democracy Index, compiled by the Economist Intelligence Unit, evaluates the state of democracy in countries based on indicators such as electoral processes, civil liberties, political participation, and functioning of government institutions. Such indicators encompass facets like political stability, geopolitical tensions, trade policies, and international relations. For instance, trade disputes or diplomatic strains can reverberate through the USD's value as they sway market sentiment and engender global risk perceptions.

Each currency exchange process involves particular risk due to the dynamic nature of the global financial landscape. Political instability, wars, and policy changes amplify these risks, injecting an additional layer of unpredictability. The liquidity of currency markets with counterparty risks and regulatory factors can compound the complexity of managing currency exchange risks. Anyway, to minimize the risk there are exist several principals that should be followed, as use currency risk instruments as currency forwards, futures, and options.

All actions carried out by participants in national and global currency markets are commonly referred to as currency operations. In global practice, the following currency operation are widely used, such as:

- Spot operation;
- Forward and futures currency agreements;
- Option agreement;
- Swap operation.

Spot operations are the most common and account for up to 90% of the volume of currency transactions. A spot currency operation refers to the buying or selling of currency with delivery within two working days from the date of the agreement, at a fixed exchange rate specified in the agreement. The spot rate, or spot exchange rate, represents the price of one country's currency expressed in the currency of another country. A spot transaction is a currency exchange agreement at a fixed exchange rate specified in the agreement, whereby currency exchange between counterparty banks typically takes place within two working days, excluding the day of the agreement.

Currency forwards are a highly effective means to hedge currency risk due to their ability to fix exchange rates in advance. By locking in a predetermined rate for a future date, participants can mitigate potential losses arising from adverse currency movements. This provides stability and certainty in planning and budgeting. Customizable and versatile, currency forwards cater to various types of currency risk, making them a preferred choice for individuals and businesses seeking effective risk management.

Currency futures plays a significant role to valuate currency risk. These standardized contracts, traded on exchanges, provide a regulated marketplace for managing exposure to currency fluctuations. By entering into a currency futures contract, individuals and businesses can lock in a predetermined exchange rate for a future date, safeguarding against potential losses. The flexibility of contract sizes and

maturity dates allows for tailored hedging strategies, while the ability to take both long and short positions accommodates different risk management needs. With currency futures, participants gain transparency, liquidity, and the peace of mind needed to navigate international trade and investments with confidence, for example, let's imagine that a Ukrainian company "Invest Trade" expecting a payment of \$375,000 in three months. To protect against potential UAH depreciation, they can sell UAH futures contracts equivalent to the value of \$375,000. If the UAH depreciates, the loss on their UAH holdings will be offset by the gain from the currency futures contract, effectively hedging their currency risk.

To talk about currency options (derivatives) that is also reliable to manipulate with currency risk. These financial derivatives provide the right, but not the obligation, to buy (call option) or sell (put option) a specified currency at a predetermined price within a defined period. Currency options allow individuals and businesses to protect against adverse exchange rate movements while retaining the opportunity to benefit from favorable movements. They provide a customizable and cost-effective hedging solution, allowing participants to manage currency risk with precision and tailored strategies. By utilizing currency options, market participants gain greater control over their exposure to currency fluctuations, enhancing risk management capabilities in international trade and investment activities, for example, A Ukrainian-based multinational company has a long-term contract with a Chinese supplier to import goods worth \$5 million in six months. Given the potential fluctuations in the USD/CNY exchange rate, the company is concerned about the impact on their costs and profitability. To hedge this risk, they decided to utilize currency options, specifically USD put options. These put options grant them the right to sell USD and buy CNY at a predetermined exchange rate. If the CNY appreciates against the USD, the Ukrainian company can exercise the put options, selling USD at a favorable rate, and reducing the cost of importing goods. By using currency options, the Ukrainian company effectively

manages currency risk, safeguarding their profitability and ensuring stable pricing in their economic relations with the Chinese supplier.

A swap is a combination of spot and forward operations involving the exchange of principal (also known as the notional amount) and interest payments in one currency for the principal and interest payments in another currency. In other words, both cash flows are represented in different currencies. Swaps involve buying currency on a spot basis in exchange for the national currency with subsequent repurchase. These transactions are carried out to facilitate commercial transactions, client financing, or for banks to acquire currency without currency risks for international settlements.

It's necessary to be up to date with currency risks because it can lead to increasing exchange rate volatility in economic fluctuations. This volatility can affect the value of a firm's foreign currency exposures, resulting in potential gains or losses when converting currencies. It can impact the cost of imported goods or services. A depreciation of the domestic currency can increase the cost of imports, potentially affecting a company's profitability or pricing strategies. Conversely, a stronger domestic currency can lower import costs and enhance competitiveness. Currency risks can influence a firm's financial reporting. Fluctuations in exchange rates can impact the valuation of foreign assets, liabilities, and revenue. This can result in translation gains or losses when converting financial statements from foreign currencies to the reporting currency [10].

There are several indexes used for tracking the performance of the U.S. dollar. Some of the commonly referenced indexes include U.S. Dollar Index (USDIX or DXY), Trade-Weighted U.S. Dollar Index, Bloomberg Dollar Spot Index, Federal Reserve's Broad Index, ICE U.S. Dollar Index. These indexes provide a benchmark for assessing the relative strength or weakness of the U.S. dollar against other major currencies. They are used by investors, traders, and policymakers to monitor and analyze currency trends and make informed decisions connected to international economic relations [11;12].

The most important U.S. Dollar Index (USD_X or DXY) is a widely recognized index used to track the value of the U.S. dollar against a basket of major currencies. It was initially developed by the U.S. Federal Reserve in 1973 to provide a bilateral trade-weighted average value of the U.S. dollar against global currencies. The index is calculated by taking a weighted average of the exchange rates between the U.S. dollar and six major currencies. These currencies include the euro (EUR), Japanese yen (JPY), British pound (GBP), Canadian dollar (CAD), Swedish krona (SEK), and Swiss franc (CHF) (Figure 1.2) [13].

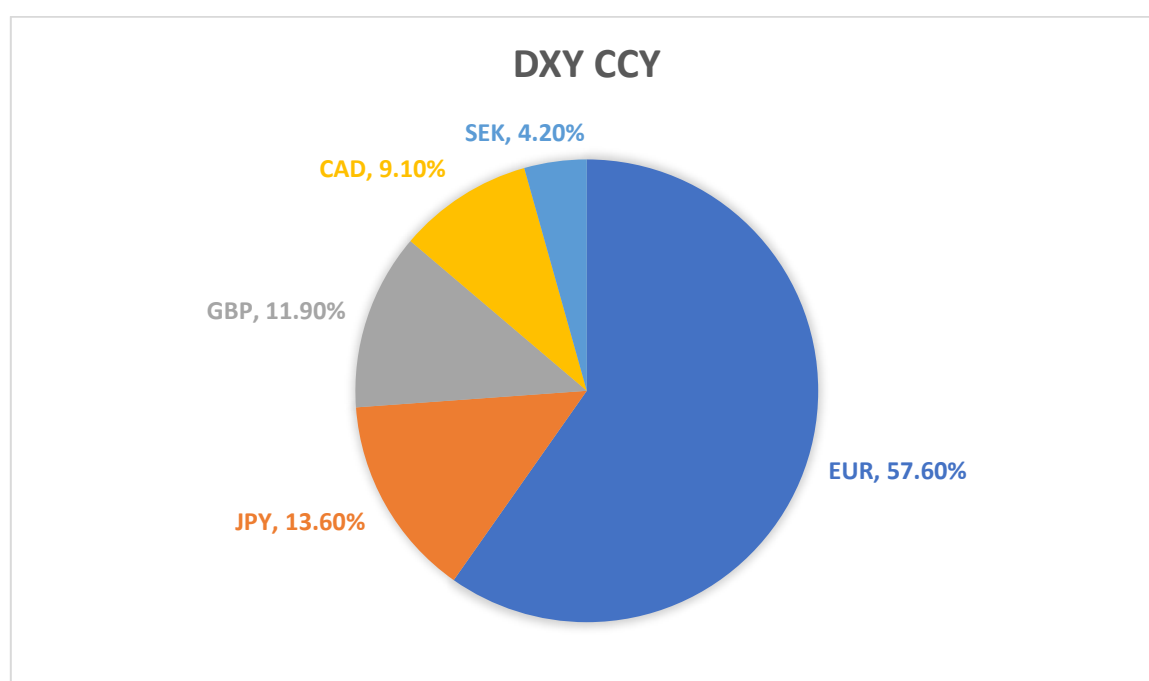


Figure 1.2 - The share of currencies used for calculation DXY %.

Source: Made by author [13].

The Trade-Weighted U.S. Dollar Index considers a basket of currencies to track the value of the U.S. dollar in international trade. The specific currencies included in this index may vary depending on the methodology used, but typically it comprises currencies of major trading partners of the United States, for example, it may include the euro (EUR), Japanese yen (JPY), British pound (GBP), Canadian dollar (CAD), Mexican peso (MXN), Chinese yuan (CNY), and others. The weights assigned to each currency reflect the level of trade between the United States and its trading partners.

Currencies of countries with significant trade relationships with the U.S. hold higher weights in the index. For instance, the euro and the Chinese yuan may have larger weights due to their substantial trade volumes with the U.S. By incorporating trade weights, the index provides a more comprehensive perspective on the value of the U.S. dollar in international economic relations. It allows analysts and policymakers to assess the competitiveness of the U.S. dollar in global trade and to monitor changes in currency values relative to their trade importance [15].

The Bloomberg Dollar Spot Index (BBDXY) is a widely recognized index that measures the value of the U.S. dollar against a basket of other major currencies. It provides a real-time snapshot of the dollar's strength or weakness in the foreign exchange market. The BBDXY includes a range of currencies, such as the euro, Japanese yen, British pound, Canadian dollar, and Swiss franc, and is weighted based on their importance in global trade.

The Federal Reserve's Broad Index, also known as the U.S. Dollar Broad Index (DTWEXB), is an index published by the Federal Reserve that tracks the value of the U.S. dollar against a broader set of currencies. It includes the currencies of major U.S. trading partners and emerging market economies. The weights assigned to each currency are based on their share in U.S. trade.

The ICE U.S. Dollar Index is a popular index that measures the value of the U.S. dollar against a basket of six major currencies: euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc. The index is trade-weighted, meaning that the weights assigned to each currency reflect their importance in U.S. trade flows. So, each index has its own advantages and limitations, and market participants may choose to follow different indexes based on their specific needs and preferences.

The indexes of the USD are important in international economics as they provide insights into currency trends, influence trade competitiveness, impact capital flows and investments, and shape monetary policies. They serve as key benchmarks for assessing

the USD's performance in the global economy and have far-reaching implications for various stakeholders, including businesses, investors, central banks, and policymakers.

CHAPTER 2. ANALYSIS OF THE US DOLLAR IN THE MODERN SYSTEM OF WORLD ECONOMIC RELATIONS.

2.1. Key trends in development of the currency structure of international economic relations

The U.S. dollar is the strongest currency in the world for several reasons. Firstly, the United States has the largest economy, which gives the dollar a strong foundation. The dollar is also known for being stable and reliable compared to other currencies. It is widely accepted and recognized globally, making it easy to use for international transactions. The dollar holds the status of being the main currency held by central banks around the world. Many commodities, like oil, are priced and traded in dollars, making it important for global trade. The dollar is deeply integrated into the global financial system, making it widely used for borrowing, lending, and investments. Its popularity and widespread use further strengthen its position. During uncertain times, the dollar is considered a safe investment. The U.S. financial markets are also large and easy to trade in, adding to the dollar's strength. All these factors combined have established the U.S. dollar as the strongest currency in the world.

Overall, the tendency of the USD in the Ukrainian financial market in Ukraine in 2023 is provoked by:

- The increasing of demand of Ukrainians for currency in the first months of the "great war" provoked a desire to protect their hryvnia reserves from inflation. But even after relative appeasement, the currency remains the leading asset at the disposal of our citizens – after the "stupor" in the securities and real estate markets;
- Average rates on annual deposits in the 20 largest banks of Ukraine at the beginning of March 2023 amounted to 13.4%, although in October-

November 2022 they were at the level of 11-12%. The yield on government bonds sold by the Ministry of Finance increased even more noticeably – up to 19.75% [57];

- An additional impact on the strengthening of the hryvnia had the repayment of three-month deposits in foreign currency, under which individuals from October 1, 2022 could buy currency for an amount equivalent to 100 thousand hryvnias;
- encouraging banks to conduct restructuring of foreign currency loans through change of the currency of the obligation from foreign to national, which will reduce currency risks of banks and reduce the level of financial dollarization[58].

The U.S. Dollar Index (USDIX or DXY) is a widely recognized index used to track the value of the U.S. dollar against a basket of major currencies. It was initially developed by the U.S. Federal Reserve in 1973 with a base of 100,000 to provide a bilateral trade-weighted average value of the U.S. dollar against global currencies. The index is calculated by taking a weighted average of the exchange rates between the U.S. dollar and six major currencies. These currencies include the euro (EUR), Japanese yen (JPY), British pound (GBP), Canadian dollar (CAD), Swedish krona (SEK), and Swiss franc (CHF). The weight assigned to each currency in the index reflects the importance of their trade relationships with the United States. The euro, being the currency used by multiple European countries and one of the largest trading partners of the U.S., holds the highest weight in the index. The U.S. Dollar Index (USDIX or DXY) has a unique composition that makes it more focused on Europe and excludes important trading partners like Mexico and China. Its primary usage is as a speculative tool rather than for practical purposes by corporations, mutual funds, insurance companies, and endowments. Additionally, the use of a geometric mean in the index can artificially lower the value of the U.S. dollar over time, potentially distorting its true strength.

These factors highlight some limitations and considerations when interpreting the U.S. Dollar Index's value and its representation of the U.S. dollar's position in global trade.

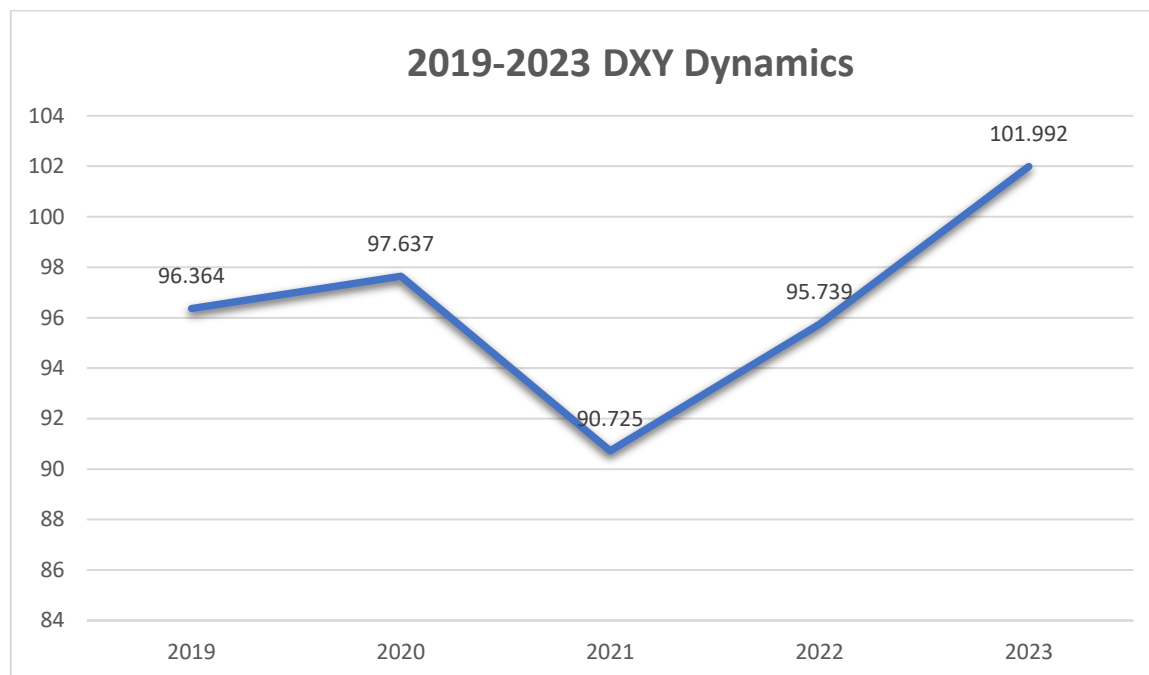


Figure 1.3 - The dynamics of DXY during 2019-2023, %.

Source: Made by author [13].

In hindsight, examining the historical charts as of 2019-2023, it becomes evident that the U.S. Dollar Index (DXY) embarked on fall in 2020 and an upward trajectory since the beginning of 2021, buoyed by the recovery of the U.S. economy following the pandemic-induced downturn, as Covid-19 (Figure 1.3). As the specter of rising inflation loomed large in early 2022, the DXY index experienced a surge, reaching its highest level in almost two decades by mid-June. This rally was supported by the U.S. implementing an assertive tightening policy while its international counterparts pursued relatively more dovish approaches. Between January 2021 and mid-June 2022, the DXY witnessed a remarkable ascent of over 17%, culminating at 105.788 points, a zenith unseen since December 2002. Notably, a significant portion of these gains materialized during March and April 2022, when the index registered monthly increases of 1.6% and 4.7% respectively. These noteworthy spikes coincided with the Federal Reserve's decision to raise interest rates by 25 basis points in mid-March, followed by

an additional 50 basis points hike in early May. Subsequently, the months of June, July, September, and November witnessed consecutive 75 basis points hikes, during which the DXY continued its steady appreciation, attaining a new two-decade pinnacle of 114.78 points on 27 September. However, as the year drew to close, a dampening of inflation figures below expectations emerged, coupled with murmurs of the Federal Reserve potentially easing its interest rate hikes. These developments introduced a sense of uncertainty and caused a potential shift in the trajectory of the DXY [14].

In recent years, the U.S. dollar has exhibited strength compared to the Chinese yuan. For instance, between 2018 and 2019, the U.S. dollar appreciated against the yuan, making Chinese exports relatively more expensive for U.S. consumers. This resulted in a growing trade deficit for the United States with China during this period. Therefore, the U.S. government implemented trade policies aimed at addressing the trade imbalance. In 2018, the U.S. imposed tariffs on billions of dollars' worth of Chinese goods, sparking a trade war between the two countries. The U.S. argued that the strength of the U.S. dollar and the relatively weaker Chinese yuan put American businesses at a disadvantage in international trade. The trade tensions between the United States and China escalated further in subsequent years. In 2020, both countries engaged in retaliatory tariff measures, impacting a wide range of goods and industries.

The stronger U.S. dollar added fuel to the trade conflict, as the exchange rate dynamics played a role in the competitive positions of the two nations. The consequences of the U.S. dollar's strength relative to the Chinese yuan included disruptions in global supply chains, increased costs for businesses, and potential impacts on economic growth. The trade war had broader implications beyond the exchange rate, affecting industries such as manufacturing, technology, and agriculture. Furthermore, the tensions extended beyond trade, encompassing other areas like technology, investment, and intellectual property rights. The U.S.-China rivalry in these domains has been influenced by the economic conflicts arising from currency

dynamics. Overall, the strength of the U.S. dollar compared to the Chinese yuan in recent years has contributed to trade tensions between the two nations, resulting in the implementation of tariffs, disruptions to global supply chains, and broader economic consequences for both countries and the global economy.

The development of currency structure in international economic relations, particularly concerning the national currency reserves of UAH and USD, and the foreign exchange market, is influenced by several key trends shaped by macroeconomic factors as Exchange Rate Fluctuations, Capital Flows and Foreign Investments, Central Bank Intervention, Economic Policies and Reforms, Economic Performance and Trade Balance.

The exchange rate between UAH and USD experiences fluctuations due to various macroeconomic factors. For instance, changes in interest rates, inflation rates, economic growth, and geopolitical events can affect the supply and demand for UAH and USD in the foreign exchange market, leading to changes in the exchange rate. Fluctuations in the UAH-USD exchange rate impact trade flows and the competitiveness of goods and services between Ukraine and the United States. The attractiveness of a country's economic prospects influences the flow of capital and foreign investment. Favorable macroeconomic conditions, such as low inflation, stable economic growth, and sound fiscal policies, can attract foreign investors seeking higher returns. Increased foreign investment can boost the demand for UAH, strengthening its value relative to the USD. Conversely, economic uncertainties or unfavorable macroeconomic conditions may lead to capital outflows, weakening the UAH against the USD.

The attractiveness of a country's economic prospects influences the flow of capital and foreign investment. Favorable macroeconomic conditions, such as low inflation, stable economic growth, and sound fiscal policies, can attract foreign investors seeking higher returns. Increased foreign investment can boost the demand

for UAH, strengthening its value relative to the USD. Conversely, economic uncertainties or unfavorable macroeconomic conditions may lead to capital outflows, weakening the UAH against the USD.

Central banks, including the National Bank of Ukraine and the U.S. Federal Reserve, actively intervene in the foreign exchange market to manage their currency reserves and stabilize exchange rates, for example, central banks may buy or sell UAH or USD in the market to influence their respective values. Central bank interventions impact the currency structure by affecting the supply and demand dynamics of UAH and USD. Ukraine had USD 30,940.9 million in international reserves as of 1 January 2022, preliminary data show. Over the course of 2021, international reserves increased by USD 1.8 billion or 6%. Ukraine boosted its international reserves through external financing and the NBU's purchases of foreign currency in the FX market [16].

The tendency of international reserves were explained by the following:

- transactions related to public debt management;
- the NBU's FX interbank transactions;
- evaluation of financial instruments. These instruments declined in value by USD 22.9 million in December

Despite the resilience of the Ukrainian banking system during times of war, there are challenges related to devaluation and inflation. To address these issues, the National Bank of Ukraine (NBU) has implemented monetary policy measures. The intense and violent war in Ukraine has presented significant challenges to the country's monetary policy. These challenges include a sharp decline in GDP, a collapse in government revenues, high inflation, devaluation of the currency, and depletion of foreign exchange reserves.

As a result, there is a pressing need to implement monetary financing measures to support the budget. The road to recovery for Ukraine is heavily reliant on finding sustainable sources and effective mechanisms for financing, which are closely tied to a

robust monetary policy. Such a policy plays a vital role in fostering resilient economic growth and stability in the face of these challenges. In simpler terms, Ukraine's monetary policy faces difficulties due to the devastating war, resulting in a sharp drop in economic output, government income, and currency value. Implementing restrictions in April 2022 on payments made with hryvnia cards abroad and transfers of funds by citizens to foreign countries has been a strategic move to curtail the amount of currency utilized for transactions with international payment systems.

These measures were undertaken with the objective of minimizing the outflow of foreign currency and promoting the use of national currency for domestic transactions. Since the devastating Russian invasion, Ukraine has utilized its foreign exchange reserves to maintain a fixed exchange rate of UAH 29.25/USD. However, in July 2022, there was a 25% increase in the exchange rate to UAH 36.56/USD, but the rate remained fixed. This increase helped slow down the decline of reserves during July and August 2022. After establishing the new fixed exchange rate level, the demand and supply of currency in the non-cash foreign exchange market stabilized. Consequently, the National Bank of Ukraine (NBU) intervened less frequently to support the hryvnia. From August to October 2022, the reserves experienced an increase primarily due to substantial international aid inflows. This aid was provided to assist Ukraine in managing its moderate debt payments. As a result, the NBU's efforts to maintain a fixed exchange rate and the inflow of international aid contributed to the stabilization and growth of Ukraine's foreign exchange reserves during this period of economic turmoil.

At the current stage of the global monetary system's development, there is a gradual de-dollarization of economies worldwide, as evidenced by the decline in the value of the dollarization index based on foreign currency deposit volumes. (Figure 1.4)

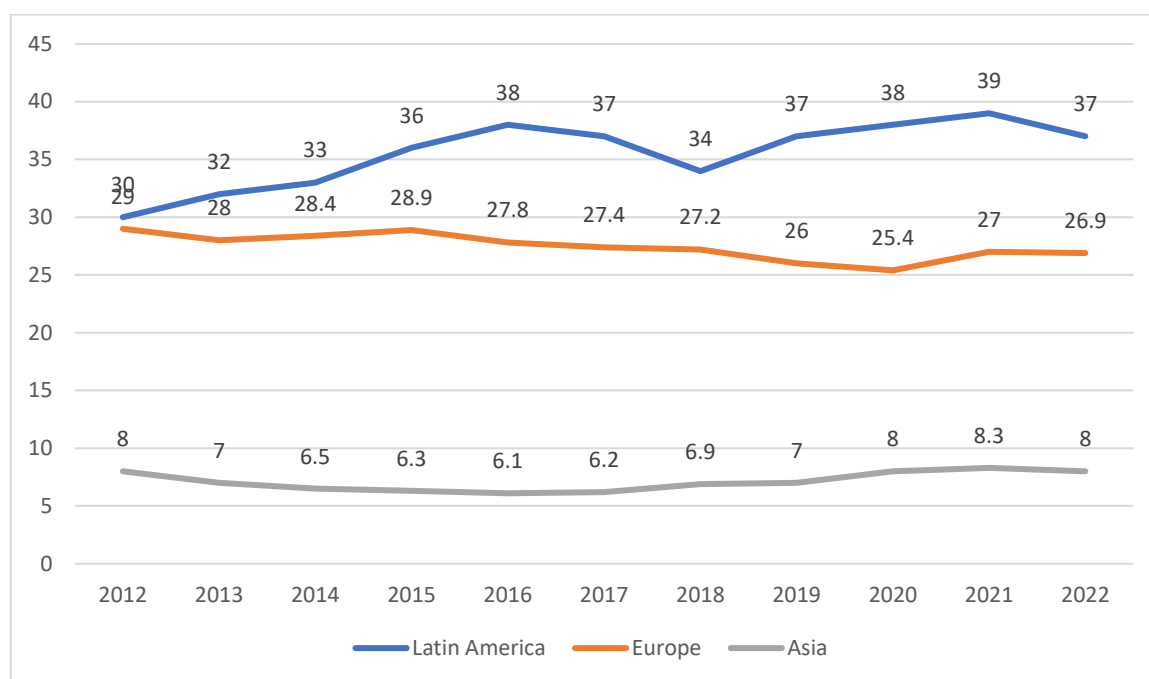


Figure 1.4 - Dynamics of the dollarization index by deposit share in USD during 2012-2022

Source: Made by author [23].

Important to note that dollarization, according to the index, increased during the crisis period, indicating a high level of trust in the US dollar even during times when decisions were being made regarding liquidity infusion into the economy. This suggests that the dollar remains an asset with relatively lower risk [41, p.93]. On the other hand, it is during times of crisis that the shadow economy tends to grow, which may contribute to the increase in dollarization. In this case, it is worth mentioning the theory of hegemonic stability, which attempts to explain the current global situation through changes in leadership.

Currently, the US still holds the leadership position, but its role as a hegemon is increasingly being questioned. This can also be seen in the global monetary system and the role of the dollar, as it used to be the only currency convertible into gold and played a monopolistic role as the world's currency. However, while it still plays a leading role, each country now could move away from the dollar and conduct transactions or hold reserves in any other currency of their choice.

Anyway, in a perfect situation. macroeconomic policies and structural reforms implemented by governments play a significant role in shaping the currency structure. Sound fiscal policies, monetary policy decisions, and structural reforms aimed at enhancing economic competitiveness can impact the value of UAH and USD, for example, implementing policies to attract foreign investment, improving business environment, and promoting trade can strengthen the UAH and boost international economic relations. The overall economic performance and trade balance of a country impact the currency structure. Positive trade balances, where exports exceed imports, can contribute to a stronger UAH relative to the USD. Economic growth, driven by sectors like manufacturing, services, and agriculture, can support a favorable trade balance and strengthen the currency.

Also, the credit rating of the United States influences the perception of the USD in international economics by reinforcing its status as a safe and reliable currency for global transactions. A higher credit rating enhances investor confidence and attracts foreign capital, contributing to the demand and value of the USD. It also strengthens the United States' position in international trade negotiations and its ability to access trade financing on favorable terms. Historically, the United States has had high credit ratings, it has generally been rated AAA by major credit rating agencies, indicating the highest level of creditworthiness. The financial rating of a country, such as the United States, is usually provided by credit rating agencies like Standard & Poor's (S&P), Moody's, and Fitch Ratings due to which can be identified investment profitability (Appendix B). These agencies evaluate various factors, including economic indicators, fiscal policies, political stability, and debt levels, among others, to assign ratings and gives outlook of the situation negative or positive (Table 1.5) [45].

Table 1.5 - Credit rating outlook by agency for 2023

Agency	Rating	Outlook
DBRS	AAA	Negative watch

Fitch	AAA	Negative watch
Moody's	Aaa	stable
S&P	AA+	stable

Source: Made by author [45].

In addition to its credit rating, the agencies attach an outlook to a company, reflecting the agency's conclusion about the ability of that company to repay its debt [46]. The outlook may be stable, under review, negative watch, or negative. It means the country will have to pay a higher rate of interest to borrow money from a bank or issue bonds on the market for the foreseeable future, to make USD stronger.

Flowing latest processes refer to development of the USD currency in international economics relations are:

- Dollarization process;
- International Loans and Financing;
- Financial Markets and Investments;
- Increasing Global Trade;
- Reserve Currency Status.

Dollarization is the process in which a country adopts the U.S. dollar as its official currency or uses it alongside its domestic currency as legal tender. Some countries, such as Ecuador and El Salvador, have adopted the USD to stabilize their economies and promote financial stability. This trend reinforces the USD's influence in international economic relations.

The USD is often used as the currency of choice for international loans and financing. Countries or businesses seeking loans from international institutions, such as the World Bank or International Monetary Fund, may borrow in USD to take advantage of lower interest rates or to enhance their credibility in global financial markets. In 2018, Ukraine, facing economic challenges and seeking financial

assistance, entered a loan program with the International Monetary Fund (IMF). As part of the program, Ukraine received financial support in the form of a loan package worth \$17.5 billion. One significant aspect of this loan program was that the funds were denominated in USD. This choice was influenced by several factors. Firstly, borrowing in USD allowed Ukraine to take advantage of lower interest rates compared to borrowing in its domestic currency, the Ukrainian hryvnia (UAH). The lower interest rates in USD reduced the borrowing costs for Ukraine and eased the financial burden.

The USD plays a crucial role in global financial markets. Many commodities, such as oil and gold, are priced in USD, and major global financial transactions, such as bond issuances and stock market trades, are denominated in USD. Investors also consider the USD as a safe-haven currency, leading to increased demand during times of uncertainty. For instance, one of the most well-known cryptocurrencies, Bitcoin (BTC), is often traded against the USD. Bitcoin-to-USD trading pairs allow investors to buy and sell Bitcoin using USD as the base currency. This pairing provides liquidity and facilitates price discovery for Bitcoin in the global cryptocurrency market. The widespread use of the USD in the crypto market highlights its importance as a benchmark currency and a medium of exchange for cryptocurrencies. It showcases the USD's influence on the valuation, trading, and accessibility of digital assets, further bridging the gap between traditional financial markets and the emerging world of cryptocurrencies.

The USD remains the dominant currency for international trade transactions, for example, when countries engage in import-export activities, they often prefer to use USD as the standard currency for pricing and invoicing. This preference is driven by the USD's widespread acceptance, stability, and its role as a global medium of exchange.

These examples demonstrate the significant role of the USD in international economic relations, ranging from global trade and investment to its reserve currency

status and dollarization in certain countries. The USD's dominance and stability contribute to its continued prominence in the currency structure of international economic relations.

2.2. The strategy of USA for development of global demand for the dollar

The United States has employed a multifaceted strategy to cultivate and enhance global demand for the U.S. dollar. This strategy encompasses several key elements aimed at solidifying the dollar's position as a dominant global currency. The U.S. prioritizes the promotion of economic stability and growth within its borders. By fostering a strong and resilient economy, characterized by low inflation and robust GDP growth, the U.S. government instills confidence in the dollar among international investors and businesses. Another vital aspect of the strategy involves positioning the U.S. dollar as the currency of choice for international transactions and investments. This entails highlighting the dollar's liquidity, reliability, and seamless integration into global financial markets (Figure 1.6). By emphasizing these qualities, the U.S. endeavors to make the dollar an attractive option for cross-border transactions and investments. Maintaining the U.S. dollar's status as a reserve currency is another critical component of the strategy. The U.S. government actively works to ensure that central banks and governments worldwide continue to hold significant amounts of U.S. dollars as part of their foreign exchange reserves. This status not only reinforces the demand for the dollar but also bolsters its stability and standing in international economic relations. Also, they implement effective monetary policies through its central bank, the Federal Reserve. These strategic policies focus on managing inflation, maintaining price stability, and safeguarding the value of the dollar. By employing these measures, the U.S. aims to inspire confidence in the dollar's long-term value and attractiveness to global investors. It should be mentioned that the U.S. engages in bilateral and

multilateral trade and investment agreements that underscore the use of the dollar in international settlements and transactions. By fostering strong economic relationships and facilitating the use of the dollar as a preferred currency in trade, the U.S. bolsters its global standing and solidifies the dollar's dominance.



Figure 1.6 – USD liquidity Indicator [46]

The tracking of USD liquidity based on the evolution of the monetary aggregate M2 in the 25 largest economies, converted into USD and minus the evolution of M3 in the United States. In the wake of the outbreak, USD liquidity increased reflecting efforts of the U.S. Federal Reserve to avoid a liquidity crisis similar or worse than that of 2007-08. It was successful. Since mid-2021, USD liquidity has started to decrease. The last time the financial markets went through such a drop in 2018 and 2019, it led to an emerging market turmoil, deteriorated financial conditions and higher USD funding costs. Our baseline is that U.S. inflation will remain uncomfortably high longer than the market anticipates. But the U.S. Federal Reserve will certainly be extremely careful regarding the pace of normalization to avoid that growth derails and the economy falls into stagflation. USD liquidity will be lower than now. However, it will certainly be high enough to have a net positive effect on financial markets, especially the equity segment, and the global economy.

The strategies that were used and still reliable to the process of making USD dominant currency are:

- Petrodollar System;
- Dollar-denominated Debt;
- International Aid and Assistance;
- International Financial Institutions;
- Dominance of U.S. Financial Markets.

The United States has fostered strategy that the use of the dollar in international oil trade through the petrodollar system. In the 1970s, the U.S. made agreements with major oil-producing countries, such as Saudi Arabia, to price oil in dollars and conduct oil transactions in the dollar. This created a significant demand for dollars as countries needed to hold dollars to purchase oil.

This country encourages countries and international corporations to issue debt in U.S. dollars. This strategy is particularly evident in the issuance of U.S. Treasury bonds, which are widely held by central banks as part of their foreign exchange reserves. By promoting the use of dollar-denominated debt, the U.S. increases the global demand for dollars.

They provides significant amounts of international aid and assistance to various countries. Often, this assistance is provided in the form of grants or loans denominated in U.S. dollars. By offering financial aid in dollars, the U.S. creates a need for recipient countries to acquire and hold dollars, thus increasing the global demand for the currency, for example, The United States has provided significant international aid and assistance to Afghanistan in USD currency. This includes financial support for reconstruction and development projects, humanitarian aid, and security assistance. Following the U.S.-led invasion in 2003, Iraq received substantial international aid and assistance in USD currency. The funds were directed towards rebuilding infrastructure, supporting governance, and promoting economic development. Also, Haiti, In the

aftermath of the devastating earthquake in 2010, the international community, including the United States, provided aid and assistance to Haiti in USD currency. The funds were used for emergency relief efforts, reconstruction, and long-term development projects. And a lot of other countries got help from the U.S.

Also, the USD plays a significant role in international financial institutions like the International Monetary Fund (IMF) and the World Bank. These institutions often provide financial assistance strategy to countries in times of economic crisis or for development projects. The funding provided by these institutions is frequently in the form of loans or grants denominated in U.S. dollars, further reinforcing the demand for the currency.

The States has developed and maintained highly liquid and efficient financial markets strategy, such as the New York Stock Exchange and the U.S. bond market. These markets attract global investors who seek opportunities for investment and diversification. The use of the dollar as the primary currency for trading in these markets increases the demand for the currency.

Its important to compare other strong currency as EUR and YUAN to USD to show the key factors that remain USD as the most powerful currency in the world. To begin with YUAN, the renminbi (RMB), also known as the Chinese yuan, is the official currency of China. Despite these efforts, the renminbi has not yet achieved the same level of dominance as the US dollar in international economic relations [19].

In recent years, the renminbi has gained international attention as China has sought to increase its global influence and promote the internationalization of its currency, The exchange rate between the Chinese yuan and the US dollar is a significant indicator of economic strength and has direct implications for both nations' economies, impacting the value of imports and exports. Generally, when the exchange rate strengthens, a country's exports become more expensive, potentially leading to reduced demand. However, it also makes imports cheaper, which could increase demand in the

long run and help control domestic inflation in the short term. Another factor hindering the renminbi's dominance is concerns about China's financial stability and regulatory framework. China's financial strategy operates differently from those of Western countries, which can create uncertainties and raise questions about the transparency and effectiveness of its financial regulations. These concerns can undermine confidence in the renminbi as a stable and reliable currency for international transactions.

Conversely, a weaker yuan against the US dollar would typically make Chinese goods more affordable for US consumers, stimulating demand, while making US exports to China more expensive, reducing demand. Consequently, this could result in a wider trade deficit for the US (Figure 1.7). On the other hand, a stronger yuan against the US dollar would have the opposite effect, impacting the affordability of Chinese goods in the US market and influencing the balance of trade between the two powerful countries [17].

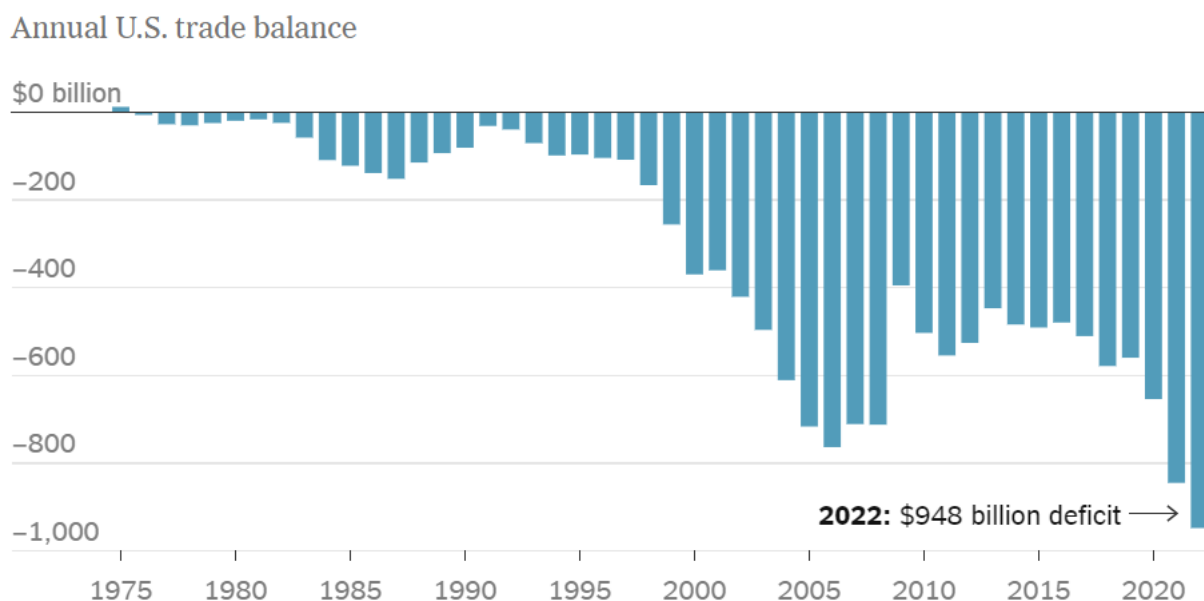


Figure 1.7 – Annual U.S. trade balance,USD [47].

The overall U.S. trade deficit rose 12.2 percent last year, nearing \$1 trillion as Americans purchased large volumes of foreign machinery, medicines, industrial supplies, and car parts. The data showed evidence of the U.S. economy's continuing recovery from the pandemic, which had held down spending on services like travel and

entertainment and pushed up purchases of imported goods. Rapid inflation and higher energy prices were responsible for some of the growth because the trade data is not adjusted for inflation.

The numbers also showed signs that global supply chains appear to be reshuffling somewhat, as the U.S. government erects more barriers to trade with China and businesses seek to diversify where they get materials and goods. The Biden administration has identified the nation's reliance on China for materials like solar panels and electric vehicle batteries as a security risk and introduced incentives and penalties to try to persuade companies to change supply chains that proved vulnerable to pandemic disruptions.

In response to the dollar's strength and the divergence in monetary policies between major economies, China has implemented measures to bolster the yuan, which recently hit a two-year low against the dollar. This move reflects China's efforts to counter the impact of the strong US currency and navigate the economic dynamics between global leading economies [18].

The strength of the USD compared to the Yuan can be attributed to several historical and contemporary factors. Historically, the USD has been the dominant global reserve currency due to the economic and political influence of the United States. The US has had a strong and stable economy, deep financial markets, and a well-established rule of law, making the USD an attractive currency for investors and businesses worldwide. In recent times, the USD has maintained strategy that its strength due to several key factors. Firstly, the United States has been at the forefront of technological innovation, with major companies such as Apple, Microsoft, and Amazon driving economic growth and investor confidence. This has contributed to the demand for USD-denominated assets and investments. The US Federal Reserve's monetary policy plays a significant role in strengthening the USD. The Federal Reserve has pursued a relatively hawkish approach by gradually raising interest rates and

implementing quantitative tightening, which has bolstered the value of the USD compared to other currencies, including the Yuan. The US economy has benefited from its status as a haven during times of global uncertainty. Investors often seek refuge in the USD during geopolitical tensions or economic downturns, further strengthening its position. Additionally, the Yuan faces certain challenges that limit its strength compared to the USD.

China's strict capital strategy controls and limited convertibility of the Yuan have restricted its internationalization and use in global trade. Moreover, concerns over China's financial stability and transparency have also affected investor confidence in the Yuan. However, it is essential to note that currency dynamics are complex and subject to various economic and geopolitical factors. The strength of the USD compared to the Yuan can fluctuate over time as global economic conditions and policies evolve. The Chinese yuan has replaced the US dollar as the most traded currency in Russia, a year after the invasion of Ukraine led to the introduction of Western sanctions against Russia. Before the invasion, the volume of yuan trading in the Russian market was insignificant. This change occurred after additional sanctions this year affected the few Russian banks that still had the ability to carry out cross-border transfers in dollars and other currencies of countries that the Kremlin considers "unfriendly." Raiffeisen Bank International, whose Russian branch remains one of the main channels for international payments in the country, found itself among the creditors facing increased pressure from European and American authorities [20].

Let's consider changes exchange currency USD to CNY over the last 5 years, because the exchange rate between the USD and CNY has implications for global trade. As China is a major exporter and the US is a major importer, fluctuations in the exchange rate can affect the competitiveness of their respective goods and impact bilateral trade balances. A stronger USD relative to the CNY can make Chinese exports more affordable and increase their competitiveness in global markets, while a weaker

USD can make US exports more expensive and potentially impact their competitiveness.

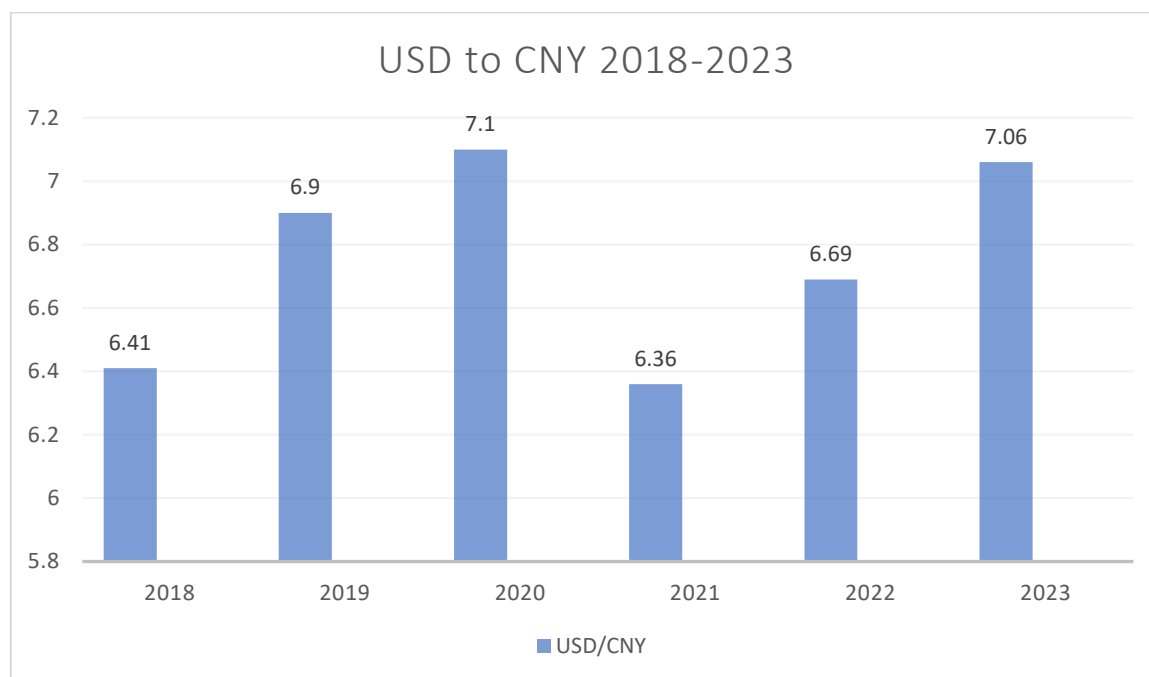


Figure 1.8 - US Dollar to Chinese Yuan Renminbi Exchange Rate over 2018-2023 years.

Source: Made by author [21].

The yuan's upward momentum is bolstered by positive market sentiment regarding China's economic growth in 2023. The impact of the pandemic on economic recovery has diminished, and there is a gradual return to normalcy in economic and social life. The main driving force behind the yuan's strength originates from within China itself, as the market exhibits increased optimism regarding the prospects of domestic economic recovery. With improved measures to tackle the epidemic, easing of restrictions on economic activities, and the implementation of supportive policies, consumer demand has witnessed a notable upswing. Unlike the recessions experienced in the US and Europe, China has been able to revive consumer and service-oriented sectors in the latter half of 2023. Consequently, it is anticipated that the yuan will have the potential to appreciate against the dollar throughout the year, fueled by the hopes of a significant economic recovery in China [22].

Anyway, over the past year, the country has increasingly relied on its own currency, the yuan, for most of its purchases of Russian oil. All seaborne Russian oil sales to China are now conducted in renminbi, bypassing the limited number of banks that previously handled US dollar transactions. The share of Russian imports paid for in yuan has seen a significant rise, with total settlements on the Cross-Border Interbank Payment System (China's equivalent of SWIFT) increasing by 22% year-on-year to reach an impressive \$14 trillion in 2022. To put this into perspective, China's imports of major commodities from Russia, including crude oil and fuel oil, reached a value of \$88 billion in 2022, representing a 52% increase compared to 2021. Notably, a substantial portion of this trade has been settled using the yuan, driven by sanctions and boycotts against Russia that have restricted the access of some Russian banks to the dollar-dominated SWIFT system, resulting in transaction complications.

China and Russia even tried to reduce their reliance on the dollar for years. In March 2023, the yuan surpassed the dollar as the most used currency for Chinese cross-border transactions. The implementation of sanctions has highlighted the immense influence wielded by the US dollar, prompting calls for reduced reliance on the currency from countries like Brazil and France. This has ignited a broader conversation about de-dollarization and the need to explore alternative currencies. The impact of these sanctions has spurred discussions on diversifying the international monetary system to mitigate vulnerabilities associated with a single dominant currency. As nations reassess their dependence on the dollar, there is a growing recognition of the importance of fostering a more balanced and resilient global financial landscape. China and Russia even trying to find a system that could replace SWIFT called CIPs. Unfortunately, embracing a greater utilization of the Cross-Border Interbank Payment System (CIPS) for trade settlements would pave the way for a renminbi-centered alternative to the prevailing dollar-centric SWIFT system. China's aspirations of positioning the yuan as the world's preeminent reserve currency are indeed present, the

tightly managed valuation of the currency by Beijing presents a considerable hurdle to its global dominance. Furthermore, its limited convertibility with other currencies currently restricts its full integration into the global market. While progress has been made in expanding the international role of the yuan, achieving full convertibility and widespread acceptance require further reforms and liberalization.

The relationship between the USD and the Euro is a complex and dynamic one, influenced by various factors and strategies that shape their interaction in the global financial landscape. The USD and the Euro share a significant degree of economic interdependence. The United States and the Eurozone are major trading partners, and any shifts in their economic performance can impact the strength of their respective currencies. Trade imbalances, inflation rates, and interest rate differentials all contribute to the fluctuations in the USD-EUR exchange rate, for example, in the aftermath of the global financial crisis in 2008, the USD experienced a period of strength against the Euro. The crisis had severely impacted the European economy, leading to concerns about the stability of the Eurozone. During this period, the USD appreciated significantly against the Euro, reaching a high of around 1.60 USD/EUR in 2008.

However, as the European economy stabilized and measures were taken to address the crisis, the Euro started to regain strength against the USD. From 2009 to 2014, the Euro appreciated against the USD, reaching a high of around 1.40 USD/EUR in 2014. This was driven by factors such as improved economic indicators and increased investor confidence in the Eurozone. More recently, the COVID-19 pandemic had a profound impact on both the USD and the Euro. Initially, the USD strengthened against the Euro as investors sought safe-haven assets during the market turmoil. However, as central banks around the world implemented monetary stimulus measures, including the Federal Reserve in the United States and the European Central Bank, the USD weakened, and the Euro gained strength.

The leading question is why EURO isn't stronger than USD, but it can be explained by several reasons:

- The Eurozone has had persistent trade imbalances, with some countries running large current account surpluses and others facing deficits. Trade imbalances can impact currency valuations, and a consistent surplus in one region can put downward pressure on the currency. This has contributed to the relative weakness of the Euro compared to the USD;
- The USD is often considered a safe-haven currency, especially during times of global uncertainty. When global markets face turmoil or investors seek safety, they tend to flock towards the USD, which can lead to a relative weakening of the Euro. Market sentiment and risk appetite influence the demand for currencies, and in times of risk aversion, the USD tends to strengthen;
- The Eurozone has experienced political uncertainties, including concerns about the stability of the Eurozone itself. Political developments such as Brexit and debates surrounding the future of the European Union have created uncertainty and affected investor confidence in the Euro. Geopolitical tensions and trade disputes have also played a role in impacting the Euro's strength;
- The monetary policies pursued by the European Central Bank (ECB) and the U.S. Federal Reserve have diverged at times. During periods when the U.S. economy has shown strength and the Federal Reserve has tightened monetary policy, the interest rate differential between the USD and the Euro has widened, attracting capital flows towards the U.S. This has put downward pressure on the Euro, making it weaker compared to the USD;
- The Eurozone has faced challenges in terms of economic growth and structural reforms. Some countries within the Eurozone have struggled

with high levels of debt, slow economic recovery, and structural rigidities. These factors have weighed on the overall performance of the Eurozone economy and have contributed to the relative weakness of the Euro.

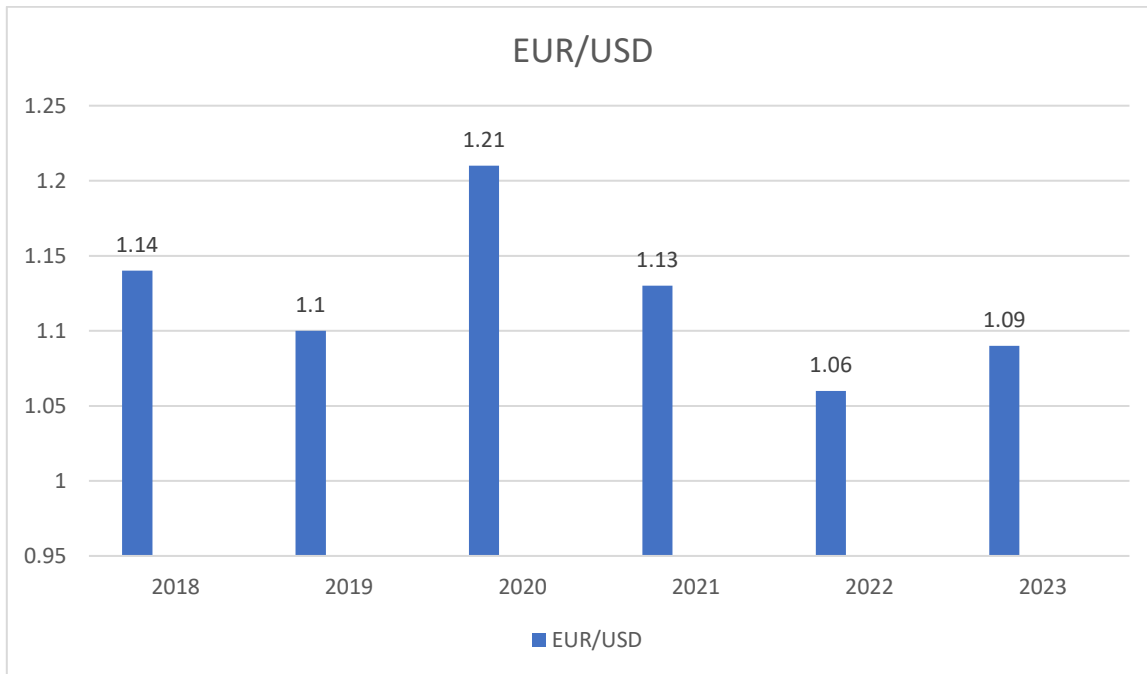


Figure 1.9 - EUR to USD Exchange Rate over 2018-2023 years,%.

Source: Made by author [53].

There are two main reasons why the euro has lost value in 2021-2023 compared to 2018-2020 the US dollar (Figure 1.9). Firstly, the soaring inflation in the euro area has played a significant role. In June, the average inflation in the euro area reached 8.6 percent, with several smaller economies experiencing even higher inflation rates, such as Estonia reaching as high as 22 percent. This upward trend in inflation is primarily driven by the Russia-Ukraine conflict, leading to higher energy prices. On the other hand, the US economy has been less affected by the Ukraine war compared to Europe. The US has remained somewhat immune to the volatility in oil and gas markets due to its oil reserves and the utilization of alternative energy sources. This factor has contributed to the appreciation of the US dollar relative to the euro. Additionally, while US interest rates have been rising for several months, Europe has been slower in increasing its interest rates. The prospect of higher returns on investments in the US

dollar area makes it more attractive for investors, further strengthening the US dollar. The US Federal Reserve Bank's announcement of consistent and significant interest rate hikes has already caused the US dollar to gain strength, resulting in a 10 percent loss in the value of the euro. Although the European Central Bank (ECB) is expected to raise its interest rates by 0.25 percent, the Federal Reserve has already raised its benchmark interest rate by 0.75 percent in June, marking the most substantial increase in nearly three decades. This divergence in interest rates attracts more investment in dollar assets, and the US dollar also benefits from its haven status during times of war, driving strong demand for the currency [25].

2.3. Global and national policies for use of the US Dollar in forms of international economic relations

The use of the US dollar in international economic relations is influenced by a combination of global and national policies. One significant policy was the Bretton Woods Agreement, established in 1944, which designated the US dollar as the primary reserve currency and created the International Monetary Fund (IMF) to promote its use. This agreement provided stability to the global financial system and contributed to the widespread acceptance of the US dollar. Another key event was the Nixon Shock in 1971 when the US ended the gold peg and allowed the dollar to float freely, shaping the modern era of flexible exchange rates. Additionally, the Petrodollar System emerged, linking oil trading to the US dollar, further solidifying its dominance in international trade and finance. Furthermore, dollarization occurred in some countries, where they adopted the US dollar as their official currency, promoting its use beyond US borders. During the global financial crisis of 2008, the US Federal Reserve implemented quantitative easing measures, such as purchasing government bonds, to stimulate the economy and stabilize financial markets. These measures had a significant

impact on the value and availability of the US dollar, influencing its use in international transactions.

The dominance of the US dollar is driven by various factors, including the economic stability of the United States, its geopolitical influence, and the depth and liquidity of its financial markets. The US economy's size and resilience make the dollar an attractive currency for global investors and businesses. Additionally, the US has established a robust legal framework, investor protection measures, and transparency in its financial system, further enhancing the trust and confidence in the dollar. Unfortunately, the US dollar's dominance is not without challenges. Some countries and regions have been exploring alternatives to reduce their dependence on the dollar, such as promoting the use of their own currencies or seeking closer financial integration. For instance, the rise of the euro as a strong regional currency and China's efforts to internationalize the yuan pose potential challenges to the US dollar's supremacy. The use of the US dollar in international economic relations is influenced by a combination of historical events, policies, and factors such as economic stability, geopolitical influence, and trade dynamics. The Bretton Woods Agreement, the Nixon Shock, the Petrodollar System, dollarization, and quantitative easing are examples of policies and events that have shaped the role of the US dollar. While challenges exist, the US dollar's dominance remains significant in the global financial system.

In Ukraine, various national policies have been implemented over the years to regulate and promote the use of the US Dollar in international economic relations. Here is a more detailed breakdown of these policies:

- In 2004, Ukraine introduced currency liberalization measures to ease foreign exchange controls and simplify currency transactions. This policy aimed to attract foreign investment, promote trade, and facilitate international economic relations, including transactions involving the US Dollar;

- In 2014, Ukraine transitioned to a more flexible exchange rate regime. This move was driven by the need to address economic challenges, including currency depreciation and external imbalances. The policy allowed the Ukrainian hryvnia to float freely against major currencies, including the US Dollar, based on market forces;
- As part of its economic reform program, Ukraine entered a Stand-By Arrangement with the International Monetary Fund (IMF) in 2014. This program aimed to stabilize the country's economy and restore macroeconomic stability. The IMF support helped strengthen confidence in Ukraine's financial system, including the use of the US Dollar in international transactions;
- Ukraine has implemented various anti-corruption measures to combat financial crimes and promote transparency in economic activities. These measures, such as enhanced financial monitoring and stricter enforcement of anti-money laundering laws, contribute to creating a more reliable and trustworthy environment for international economic relations involving the US Dollar;
- Ukraine has been working towards aligning its financial systems with European Union (EU) standards. This integration involves harmonizing regulations, adopting EU directives, and implementing reforms that enhance the compatibility and interoperability of financial systems. Such measures facilitate transactions with EU member states, many of which use the Euro as their currency. On 23 June 2022, the European Parliament adopted a resolution calling for the immediate granting of candidate status for EU membership to Ukraine;
- Also, Ukraine has been promoting digitalization in the financial sector, including the development of e-payment systems. This facilitates the use

of digital currencies, including transactions involving the US Dollar, and enhances the efficiency and security of international economic transactions.

According to the forecast by Capital Times, the average official exchange rate of the Ukrainian hryvnia (UAH) at the end of 2024 will be 41.8 UAH/USD, and by the end of the year, it will decrease to 43 UAH/USD. In 2025, the hryvnia is expected to continue weakening, with an average exchange rate of 43.6 UAH/USD and finishing the year at the level of 44 UAH/USD. The key point is market regulation by the National Bank (NBU). According to the expert forecast, by the end of the year, the NBU will[54]:

- Allow legal entities to service their debt obligations in foreign currency;
- Introduce the sale of non-cash currency at the market exchange rate;
- Reduce the discount rate to a range of 20-23% per annum.

If exclude all the elements related to the defense sector from the GDP statistics, it would appear that Ukraine's economy contracted by 50% last year. The Ukrainian economy is in a state of shock, with defense currently accounting for 51% of the budget expenditures. Since Ukraine's budget is calculated in hryvnia, and foreign aid, which significantly influences its funding, is received in foreign currency, the government benefits from a weakening hryvnia. The depreciation of the hryvnia is advantageous because it allows the government to receive more hryvnia for the same amount of foreign currency, thereby increasing the budget's purchasing power. In the long term, relative stability in the exchange rate will be supported by factors such as the return of Ukrainians from abroad and an increase in foreign investments. These factors contribute to the overall economic stability and can help mitigate the effects of shocks on the exchange rate [50].

Also, a lot of countries faced with the weakening of their currencies relative to the US dollar has made the inflation fight harder (Appendix 3). The strengthening of

the US dollar has significant implications for global balance sheets. About half of all cross-border loans and international debt securities are denominated in USD. While emerging market governments have made efforts to issue debt in their own currencies, the private corporate sectors in these countries still have substantial amounts of debt denominated in USD. With the increase in global interest rates, financial conditions have tightened for many nations. The stronger US dollar exacerbates these pressures, particularly for vulnerable emerging market economies and low-income countries that are already at a high risk of debt distress.

In the face of depreciation pressures, it is important to adopt an appropriate policy response that considers the underlying factors driving the exchange rate change and potential market disruptions. It is crucial to recognize that foreign exchange intervention should not serve as a substitute for necessary adjustments to macroeconomic policies. However, there may be a role for temporary intervention when currency movements pose significant risks to financial stability or significantly hamper the central bank's ability to maintain price stability. The focus should be on ensuring a balanced approach that addresses the root causes of exchange rate fluctuations while preserving overall economic stability.

Currently, the appreciation of the US dollar is primarily driven by economic fundamentals. Factors such as rapidly rising US interest rates and a more favorable terms-of-trade, resulting from the energy crisis, have contributed to the dollar's strength (Figure 1.10). In the US, higher rates have sharply raised borrowing costs, spurring a slowdown in sectors such as housing and playing a role in the recent failures of three US banks. To combat high inflation, the Federal Reserve has implemented a tightening monetary policy. In contrast, the European Central Bank has signaled a more cautious approach to policy rates due to concerns over the impact of the energy crisis on the economy. Japan and China, experiencing low inflation, have diverged from the global tightening trend. Additionally, the dollar's strength is influenced by the massive terms-

of-trade shock caused by Russia's invasion of Ukraine. The euro area, heavily dependent on energy imports, particularly natural gas from Russia, has faced a significant decline in its terms of trade, reaching a historic low for the shared currency. (Appendix D)

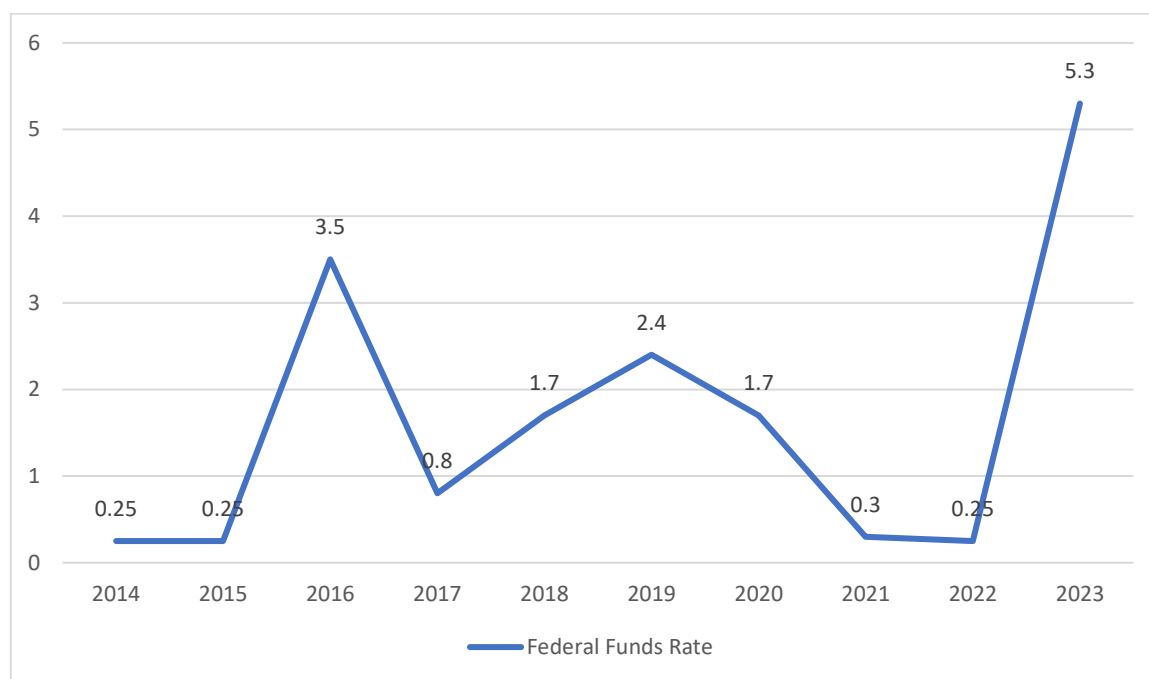


Figure 1.10 - United States Federal Funds Rate 2014-2023, %.

Source: made by author [59].

When it comes to countries that are still developing, many of them were already in the process of raising their interest rates compared to more advanced economies. This was partly due to concerns about their currency exchange rates. On the other hand, countries that export commodities experienced positive changes in their terms of trade. As a result, the impact on exchange rates for the average developing country has been less severe, and some countries like Brazil and Mexico have even seen their currencies appreciate.

Considering the significant role of fundamental factors, the appropriate response is to let the exchange rate adjust naturally while using monetary policy to keep inflation in check. The higher prices of imported goods can help with the necessary adjustment

caused by these fundamental changes by reducing imports, which in turn helps in managing external debt. Fiscal policy should be employed to support those who are most vulnerable without compromising inflation targets. Furthermore, it is important to address several potential risks on the horizon. There could be increased turmoil in financial markets, including a sudden decrease in interest for investments in developing countries, which could lead to significant capital outflows as investors seek safer options.

2.4. Scenarios and perspectives for usage of the USD in global and Ukrainian economies

The US Dollar plays a dominant role in several spheres of the Ukrainian economy. As it was mentioned before, the dominance of USD in these spheres can be attributed to several factors. Firstly, USD's stability and acceptance provide confidence to market participants, ensuring a reliable medium of exchange and store of value. Secondly, USD's global reserve currency status and its extensive use in international trade and finance make it a familiar and convenient choice for businesses operating in the global market. Finally, USD's historical association with economic power and the influence of the United States in the global economy further solidify its dominant role. USD plays a vital role in Ukraine's energy sector, particularly in natural gas transactions. Historically, natural gas imports from Russia have been priced and settled in USD. Although there have been efforts to diversify energy sources and reduce dependence on Russian gas, the USD still holds prominence in energy-related contracts and transactions.

The USD holds a significant role in Ukraine's banking and financial sector. Many banks in Ukraine offer USD-denominated accounts and financial products, catering to the needs of businesses and individuals engaged in international transactions [48]. USD

is widely used for cross-border payments, trade financing, and foreign currency exchange services, contributing to its dominance in the financial sector. Also, USD is a dominant currency in attracting foreign direct investment into Ukraine. International investors often prefer to invest in USD-denominated assets, such as bonds, stocks, or real estate, due to its stability and recognition as a global reserve currency.

Consequently, many FDI projects in Ukraine are financed and valued in USD, providing a sense of security and familiarity for foreign investors. USD is widely used in Ukraine's international trade activities. Most export and import transactions, including contracts, pricing, and settlement, are conducted in USD. The global acceptance and stability of the USD make it a preferred currency for international trade, providing a common medium of exchange and facilitating smoother transactions between Ukrainian companies and their foreign counterparts and what is the most important USD's status as a global reserve currency and its wide acceptance in international financial markets contribute to its dominant role in Ukraine. USD is extensively used for accessing global financial markets, raising international capital, and conducting cross-border transactions. Ukrainian companies and financial institutions rely on USD-based instruments and services to facilitate global financial integration.

One example of an institution in Ukraine that operates exclusively with USD is the American Chamber of Commerce in Ukraine. The American Chamber of Commerce is a business association that promotes and supports American business interests in Ukraine. As an organization focused on facilitating trade and investment between the United States and Ukraine, the American Chamber of Commerce conducts its operations, transactions, and membership fees in USD.

There are a lot of companies in Ukraine that use USD in their operations, but the main are:

- Naftogaz of Ukraine

Naftogaz, the state-owned oil and gas company of Ukraine, operates in the energy sector and often engages in international transactions related to the import and export of natural gas. These transactions, including pricing and settlement, are typically conducted in USD.

- Ukrzaliznytsia

Ukrzaliznytsia is the national railway company of Ukraine. As a transportation company involved in international freight services, Ukrzaliznytsia often deals with USD-denominated contracts and payments for its services.

- METINVEST

METINVEST is a vertically integrated mining and steel production company in Ukraine. Given its global presence and international customer base, METINVEST conducts a significant portion of its business in USD, including sales, purchases of raw materials, and financial operations.

- Raiffeisen Bank Aval

Raiffeisen Bank Aval is one of the largest banks in Ukraine, operating as a subsidiary of Raiffeisen Bank International. The bank offers a wide range of financial services, including USD-denominated accounts, loans, and foreign exchange transactions, catering to the needs of businesses and individuals involved in international trade.

Unfortunately, due to Russian's invasion of Ukraine, there were several restrictions on 24 February 2022[30]:

- Suspending the operation of the currency market in Ukraine, except for foreign currency sales by clients;
- Fixing the official exchange rate as of February 24, 2022;
- Limiting cash withdrawals from client accounts to 100,000 UAH per day (excluding salary and social payments), except for enterprises and institutions involved in mobilization plans, government entities, and

specific permits issued by the National Bank, without charging and withdrawing commissions;

- Prohibiting the issuance of cash in foreign currency from client accounts, except for enterprises and institutions involved in mobilization plans, government entities, and specific permits issued by the National Bank;
- Imposing a moratorium on cross-border currency payments, except for enterprises and institutions involved in mobilization plans, government entities, and specific permits issued by the National Bank;
- Suspending servicing banks from conducting expenditure operations on accounts of resident entities of the state that carried out armed aggression against Ukraine;
- Temporarily suspending the issuance of electronic money, replenishment of electronic wallets with electronic money, and distribution of electronic money by electronic money issuers;
- These measures were implemented in response to specific circumstances and aims to regulate and control currency transactions in Ukraine during that period.

Before the full-scale invasion of Ukraine by Russia, the Ukrainian hryvnia had a floating exchange rate. On February 24, 2022, the regulator fixed the official exchange rate of the hryvnia at 29.25 UAH/USD. On July 21, 2022, the National Bank increased the official exchange rate of the hryvnia by 25% to 36.57 UAH/USD, which remains unchanged to this day. At the same time, the cash exchange rate of the hryvnia in exchange offices has already significantly approached the official rate. For today, the cash exchange rate of the hryvnia to the dollar in bank exchange offices in Kyiv is 37.60 UAH/USD.

Overall, these restrictions sought to regulate and control the use of USD in Ukraine, particularly during specific periods of economic and political challenges. A

lot of companies faced with problematic situation with paying in USD to foreign counterparties and the accounts payable of the companies rised significantly.

Anyway, in terms of the Ukrainian economy, the USD plays a significant role in areas such as foreign direct investment, foreign exchange reserves, and external debt servicing. Many foreign investors and creditors prefer to transact in USD, which can contribute to the inflow of investment and financing into the country. A stronger USD can benefit exporters by making their goods and services more competitive in international markets. On the other hand, it may increase the costs of imports, which can affect domestic consumers and industries reliant on imported inputs.

The value of a currency depends on how much people want to buy or sell assets from that country. If more people want to buy assets from a country, they need to use that country's currency, which makes the currency stronger. Higher interest rates or better expected returns on investments also make people want to buy that country's currency, causing it to appreciate. Similarly, if people see a country's assets as a safe place to invest during uncertain times, they will want to buy the currency, making it stronger. During periods of market turbulence, United States assets, particularly Treasury bonds, are considered valuable and reliable. These assets have a deep and stable market, which contributes to their perceived value. As a result, when global turbulence occurs, there is an increased demand for these assets, leading to a strengthening of the US dollar. The invasion of Ukraine serves as an example of this, where the dollar appreciated in response to the event. Another notable instance was during the Global Financial Crisis in September 2008, when the DXY dollar index increased by over 10% within two months, despite the crisis originating from financial market disruptions in the United States.

As the consequences of the Russian invasion of Ukraine ripple across the globe, it is anticipated that Europe (including the United Kingdom) and Japan will bear a heavier brunt compared to the United States. The relatively stronger economy of the

United States fuels a higher demand for U.S. assets, as they are expected to be less negatively impacted compared to assets from other nations. This increased demand subsequently strengthens the value of the U.S. dollar. A blog by the International Monetary Fund (IMF) in March 2022 sheds light on some underlying factors. Europe heavily relies on Russia for natural gas, rendering it more vulnerable to price hikes in energy and food. The Japanese economy is also relatively more susceptible to higher commodity prices and weakening demand in export markets compared to the United States. Additionally, the United States has fewer direct connections with Ukraine and Russia. The differing levels of vulnerability are evident in revised forecasts for GDP growth. The Wall Street Journal's consensus forecast for 2022 Q4/Q4 growth was adjusted downward from 3.3% in the January survey to 2.6% in the April survey. This decline of 0.7 percentage points is smaller than the revisions seen in the Euro area, the United Kingdom, and Japan. For instance, the European Commission revised its forecast for real GDP growth in 2022 from 4.0% in its Winter 2022 report to 2.7% in its Spring report. Price Waterhouse Coopers (PwC) revised its expectations for British economic growth in 2022 from 4.5% to a range between 2.8% and 3.8%, while the International Monetary Fund lowered its forecast for Japan's economic growth in 2022 from 3.3% to 2.4% [31].

In conclusion, The USD holds several advantages in the Ukrainian market. Many international trade agreements and contracts are denominated in USD, making it convenient for Ukrainian businesses engaging in cross-border trade. Additionally, the USD has a deep and liquid market, ensuring ease of access and efficient exchange for market participants. The USD's role as the global reserve currency provides access to international financing and investment opportunities. Ukrainian companies can tap into USD-dominated capital markets, attracting foreign investment and fostering economic growth. The USD's dominance in global financial institutions and payment systems, such as SWIFT, facilitates seamless international transactions and enhances Ukraine's

integration into the global economy. The U.S. Federal Reserve's reputation for prudent monetary policy and transparent decision-making processes enhances confidence in the USD. This stability is particularly advantageous for Ukrainian businesses engaged in long-term contracts and planning, as it reduces uncertainty regarding exchange rate fluctuations and exactly such characteristic will help to make Ukraine bright international economics relationship and make Ukrainian economy stronger and powerful.

Thus, nowadays, the real need is the adoption of the Law of Ukraine "On Currency Regulation and Currency Control", which would allow to define in more detail the types of currency transactions in Ukraine, the legal regime of their implementation, the legal status of persons, who carry out operations with currency values; avoid duplication of legal regulation of the same relations and uncertainty of legal regulation of others. determine the competence of all bodies exercising public administration in the field of currency relations. Only under such conditions can one confidently move towards the introduction of a full-fledged monetary unit of Ukraine, which would meet all the requirements that belong to the national currency.

CONCLUSION

The research conducted in this study has shed light on the dominant role of the US dollar in the international economic landscape. Through an analysis of the theoretical foundations, global trends, and specific policies, it is evident that the USD holds significant advantages and a strong position in the global currency system. The USD holds several advantages in the Ukrainian market, The USD's role as the global reserve currency provides access to international financing and investment opportunities. As a result, the research has aimed to offer practical suggestions to enhance Ukraine's national economic interests. These insights can guide decision-makers in formulating effective strategies and policies to maximize the benefits and mitigate the risks associated with the use of the US dollar in Ukraine's international economic interactions. This allowed the author to formulate a number of conclusions of theoretical and practical importance:

1. A lot of theories used to describe the global currency system, it depends on some factors as period, time, and input of globalization to international economics. The theories shed light on different aspects, including the role of dominant currencies, the impact of monetary policies, and the influence of economic integration. The creation and implementation of digital currencies have occurred over the past decade, with Bitcoin being the first and most influential, followed by the development of various other cryptocurrencies and blockchain-based platforms. The global currency system serves as a versatile cornerstone of the global economy, encompassing a multitude of functions. It plays a pivotal role in facilitating international transactions, streamlining the process of conducting business across national borders.

2. Taking everything into account the development of the global currency system was adaptive in nature to changes caused by the development of the world economy. The global currency system has gone through several stages to the present stage for each with it's own factors as The Paris system, the Genoa system, the Bretton Woods

system and the Jamaican system. At the same time, the global currency system in the course of its evolution tended to self-regulation, gradually moving away from regulatory mechanisms, which led to a departure from fixing national currencies to solid standards of value.

3. All currency actions carried out by participants in national and global currency markets are commonly referred to as currency operations. In global practice, the currency operation are widely used, such as: Spot operation, Forward and futures currency agreements, Option agreement, Swap operation. The indexes of the USD are also important in international economics as they provide insights into currency trends, influence trade competitiveness, impact capital flows and investments, and shape monetary policies. They serve as key benchmarks for assessing the USD's performance in the global economy and have far-reaching implications for various stakeholders, including businesses, investors, central banks, and policymakers.

4. The dollar holds the status of being the main currency held by central banks around the world. Many commodities, like oil, are priced and traded in dollars, making it important for global trade . The USD remains the dominant currency for international trade transactions, for example, when countries engage in import-export activities, they often prefer to use USD as the standard currency for pricing and invoicing. This preference is driven by the USD's widespread acceptance, stability, and its role as a global medium of exchange. The increasing of demand of Ukrainians for currency in the first months of the "great war" provoked a desire to protect their hryvnia reserves from inflation. But even after relative appeasement, the currency remains the leading asset at the disposal of our citizens – after the "stupor" in the securities and real estate markets.

5. The United States has employed a multifaceted strategy to cultivate and enhance global demand for the U.S. dollar. This strategy encompasses several key elements aimed at solidifying the dollar's position as a dominant global currency. The

U.S. prioritizes the promotion of economic stability and growth within its borders. By fostering a strong and resilient economy, characterized by low inflation and robust GDP growth, the U.S. government instills confidence in the dollar among international investors and businesses.

6. The use of the US dollar in international economic relations is influenced by a combination of global and national policies. The Bretton Woods Agreement, the Nixon Shock, the Petrodollar System, dollarization, and quantitative easing are examples of policies and events that have shaped the role of the US dollar. Considering the significant role of fundamental factors, the appropriate response is to let the exchange rate adjust naturally while using monetary policy to keep inflation in check. The higher prices of imported goods can help with the necessary adjustment caused by these fundamental changes by reducing imports, which in turn helps in managing external debt. Fiscal policy should be employed to support those who are most vulnerable without compromising inflation targets.

7. The USD holds a significant role in Ukraine's banking and financial sector, international economics relationship Many banks in Ukraine offer USD-denominated accounts and financial products, catering to the needs of businesses and individuals engaged in international transactions, many FDI projects in Ukraine are financed and valued in USD, providing a sense of security and familiarity for foreign investors. USD is widely used in Ukraine's international trade activities. Ukrainian companies can tap into USD-dominated capital markets, attracting foreign investment and fostering economic growth. The USD's dominance in global financial institutions and payment systems, such as SWIFT, facilitates seamless international transactions and enhances Ukraine's integration into the global economy. The U.S. Federal Reserve's reputation for prudent monetary policy and transparent decision-making processes enhances confidence in the USD. This stability is particularly advantageous for Ukrainian businesses engaged in long-term contracts and planning, as it reduces uncertainty

regarding exchange rate fluctuations and exactly such characteristic will help to make Ukraine bright international economics relationship and make Ukrainian economy stronger and powerful.

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APPENDICES

Appendix A

Key changes due to the Jamaican system

Key Changes	Description
Flexible Exchange Rates	Under the Jamaican system, participating countries shifted from fixed exchange rates to flexible exchange rates. This allowed countries to determine the value of their currencies based on market forces rather than being pegged to a fixed value against another currency or reserve asset.
End of the Gold Standard	The Jamaican system formally marked the end of the gold standard in the international monetary system. Currencies were no longer determined by their relationship to gold, and gold ceased to be used as a reference point for currency values and international payments.
Special Drawing Rights	The role of Special Drawing Rights (SDRs), an international reserve asset created by the IMF, was expanded under the Jamaican system. SDRs became a supplementary reserve asset that member countries could use alongside their own national currencies
Floating Exchange Rates	With the introduction of flexible exchange rates, currencies were allowed to float freely against each other based on market supply and demand. This provided countries with more flexibility in managing their exchange rates and adapting to economic conditions.

Devaluation and Revaluation	The Jamaican system recognized the right of countries to adjust the value of their currencies through devaluations (lowering the value) or revaluations (raising the value) as needed to correct imbalances in their balance of payments.
Monetary Policy Autonomy	The Jamaican system acknowledged the autonomy of countries in conducting their monetary policies and managing their domestic economies according to their own economic objectives.

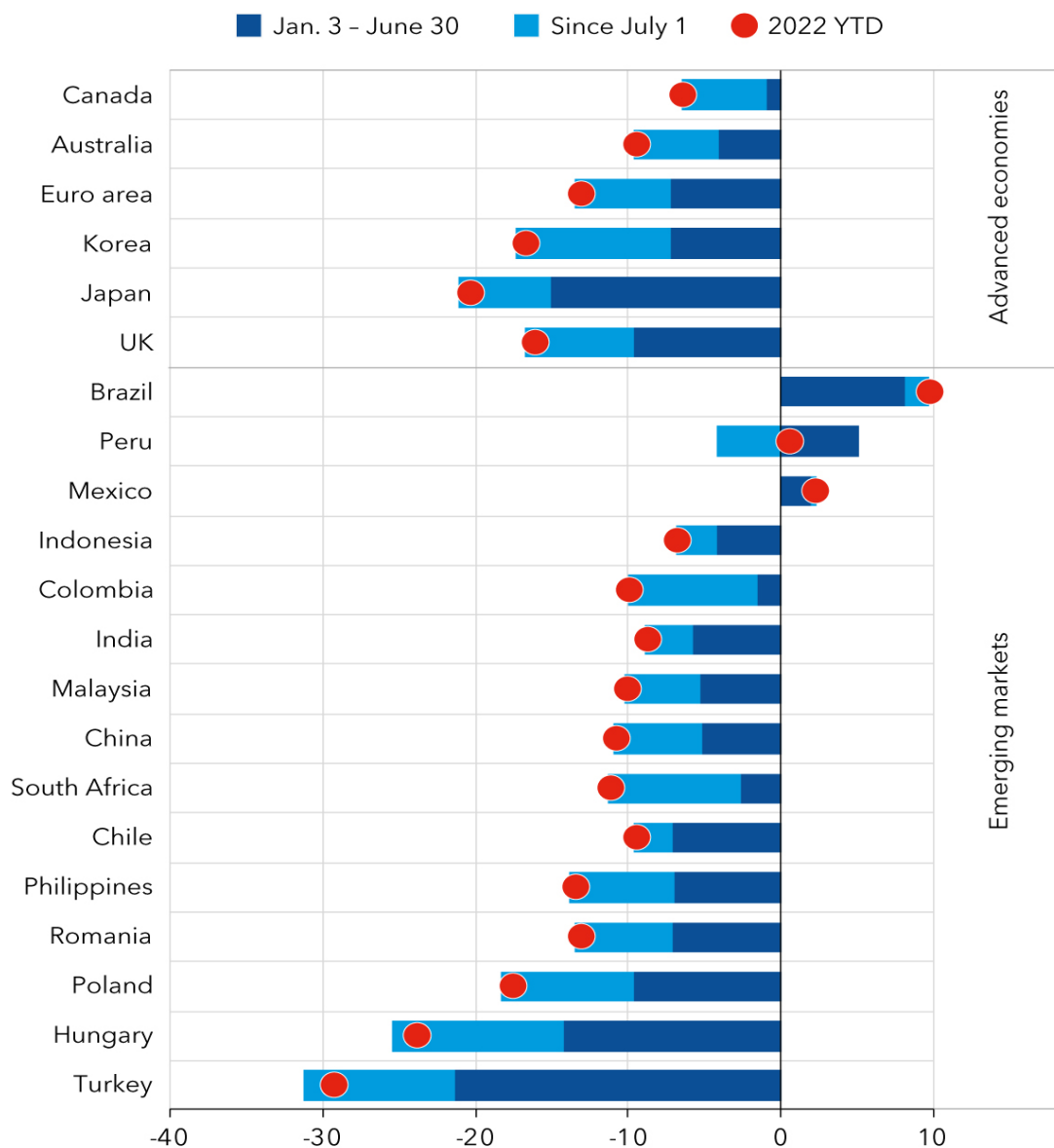
Credit rating classification

	MOODY'S	S&P Global	FitchRatings
	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Non- Investment Grade <i>High Yield</i> <i>"Junk"</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C
Default	C	D	D

Dollar surge

For many countries, the weakening of their currencies relative to the US dollar has made the inflation fight harder.

(exchange rates vis-à-vis US dollar, percent change)



Source: Haver Analytics and IMF staff calculations.

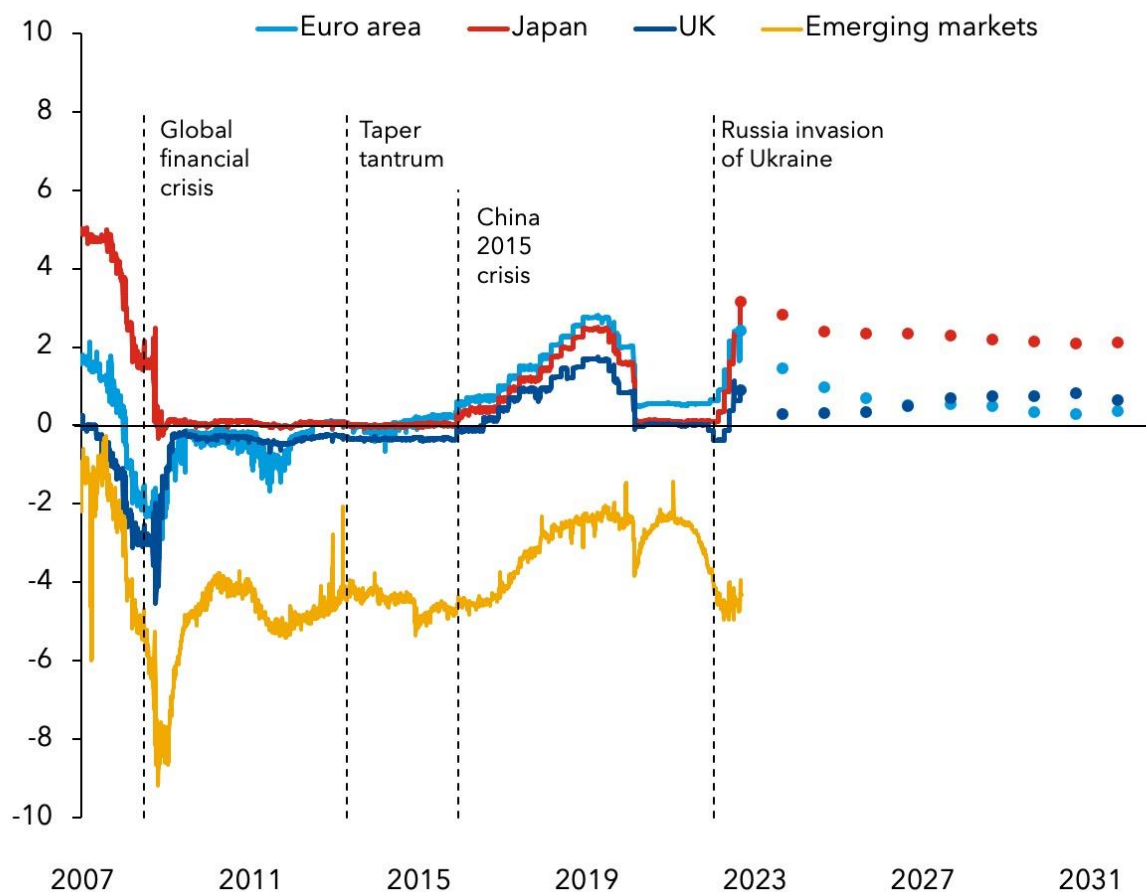
Note: As of October 4, 2022.

IMF

Interest rate differentials

Interest rate differentials

Differences in monetary policy are a key driver of the strong dollar.
(versus US interest rates, percent)



Sources: Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.

Notes: Differential is calculated as US overnight bank funding rate minus foreign inter-bank rate. The dots depict the forward paths for nominal interest rates.

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9.56% Схожість

Найбільша схожість: 0.86% з Інтернет-джерелом (<https://www.home.saxo/content/articles/macro/chart-of-the-week-g...>)

9.21% Джерела з Інтернету 585 Сторінка 77

1.15% Джерела з Бібліотеки 217 Сторінка 83

0% Цитат

Вилучення цитат вимкнене

Вилучення списку бібліографічних посилань вимкнене

0% Вилучень

Немає вилучених джерел