

The Future of the International Monetary System

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Future of the International Monetary System ?



Dollar, euro, pound, yen, RMB

percentage

70

60

50

40

30

20

10

0

44

16

11

6

2

63

22

3

0

59

21

4

62

20

5

4

2

40

34

4

7

2

USD EUR JPY GBP RMB

Foreign
exchange
turnover

USD EUR JPY RMB

International
debts

USD EUR JPY RMB

International
loans

USD EUR JPY GBP RMB

Foreign
exchange
reserves

USD EUR JPY GBP RMB

Global payment currency

Source: Eichengreen and Xia (2019)

International Currency Roles

	Roles		
	Medium of exchange	Store of value	Unit of account
Private sector	Vehicle currency Liquid asset markets	Nominal securities issuance Banking, cash hoarding	Denomination of securities Trade invoicing
Official sector	Intervention currency Lender of last resort	Reserves	Exchange rate pegs

Adapted from Kenen (1983)

Liquidity, safety, soft budget constraint

- Ability to issue large amounts of safe assets at high price.
- “ This unilateral facility that the United States has means that the dollar is not an impartial means of international exchange, since it is a means of issuing credit for one state.” De Gaulle (1965).

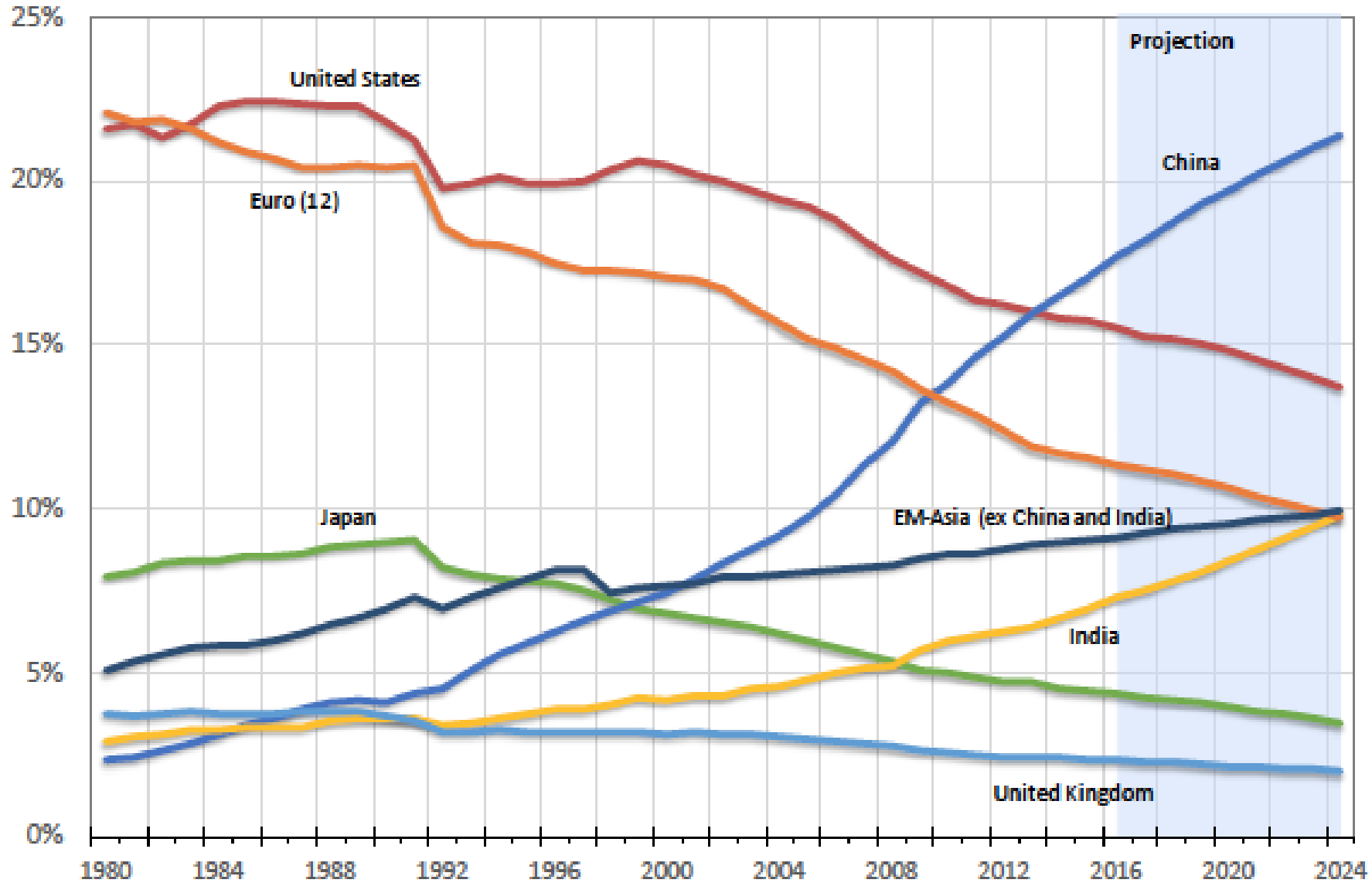


Source: Gourinchas, Rey and Sauzet (2019)

But international lender of last resort and insurance duty.

Shrinking hegemon problem

Share of World Output



- Effect on real rate (Gourinchas, Rey, Govillot (2019))
 - Effect on Stability
- ‘New Triffin dilemma’

Source: Gourinchas and WEO 2019

Shrinking Hegemon

- Expanding US public debt in line with the growth of the world economy would eventually exhaust the fiscal capacity of the US. Confidence crisis.
- Dollar hegemon is not sustainable. New Triffin dilemma. The global economy will have to switch either to another single international currency or to a multipolar environment.

Switching into?

- Euro?
- RMB?
- Crypto currencies?
- Digital currencies?
- Synthetic Hegemonic Currency?



Back in 1998

In "The Emergence of the Euro as an International Currency":

"The internationalisation of the euro therefore hinges critically on the speed of integration of euro financial markets, on the willingness of the ECB not to hinder internationalisation, and on the number of participants in the monetary union (*especially on UK participation*) "

Richard Portes and H el ene Rey (1998)

Switching into?

- Euro: financial architecture issue
- RMB: convertibility issue, financial underdevelopment.
- Crypto.... Not clear which problems it solves. Clear which problems it creates. Fraud, environment...

Switching into?

- Digital: may be better medium of exchange. Safe asset?
- SHC: basket of digital currencies. Potentially better medium of exchange (though unit of account?). Several hegemony not as shrinking as one. But same issue as SDRs: who backs it fiscally? Who provides liquidity in a crisis?
- New transaction technologies do not need to be coupled with new currencies.
- Government issued currencies: legal tender, provides public good in exchange.
- Big Firm issued: enforced via the network, provides profit to the big firm in exchange.

Conclusion

We will probably still live in a Dollar world for a while.

Thank you!

