Current Non International Monetary System

• Surveillance done by IMF
• international liquidity mostly $, €, Swap lines Fed, ECB, China
• Global Safety net IMF – regional Safety nets most important EU – ESM EFSM etc., Chiang Mai in Asia – for conditional lending

• World economy essentially shaped by two currency blocs, the euro and the US dollar bloc, which coexist with numerous floating currencies.
• The euro bloc comprises all the countries and regions that use euro as legal tender or whose currency is pegged to the euro

• Maps detailing the geographical extension of the euro bloc (blue) and the US dollar bloc (green)
Currency blocs

- Countries whose currency’s flexibility is limited vis-a-vis the US dollar
- Countries whose currency’s flexibility is limited vis-a-vis the euro
Euro also during crisis second most important reserve currency
Currency blocs

• Out of 229 countries and territories, the US dollar bloc and the euro bloc have each over 50 members.

• The combined GDP of the US dollar bloc fluctuates over time between 150% and 209% of the corresponding euro bloc value depending on the composition of the two blocs.

• The euro bloc is extremely stable compared with the US dollar bloc: since 1999
  … only Hungary left the euro bloc,
  … but 33 countries from all over the world left the US dollar bloc and an even greater number entered it.
Currency blocs

- $ supported by oil and gas traded in $ even if US covers its needs
- € needs pricing of oil, gas in € - trading, futures market in €
- China oil trading in own currency, futures market in €
- Russia most oil, gas exported to EU – pricing in € instead of $
- oil price less volatile in € - would help trade with big suppliers for Euro area e.g. Russia
Future International Monetary System

• **Return of currency, trade wars?** US – China in process of leaving $ bloc

• **US uses $ for sanctions** – Iran, Russia – countries shift out of $

• Dollar-centered payment system is a problem for the EU, China, Russia. Dollar liquidity shortages after the collapse of Lehman Brothers in 2008 deepened the crisis, requiring global cooperation among central banks, with Swaps.

• US administration is using the dollar, and the dollar-based payment system, as a foreign policy tool, e.g. by punishing companies, banks that do business with Iran.

• The dollar-based payment system exposes the EU, China, Russia, to US foreign policies, even if EU foreign policy has different priorities. Use Target 2 as € based international payment system.

• **Bipolar IMS $-€ blocs could develop into tripolar $-€-Yuan System**
Connectivity Europe- Asia in trade, transport

• EU free trade agreements with Asia e.g. Japan, South Korea
• Will lead to more trade between Asia and Europe

• Will need improved transport infrastructure
• China huge infrastructure investments – Belt and Road
• EU needs more infrastructure financing, could be done outside the budget based on Austrian SFINAG model
• to give the euro area counter cyclical capabilities an Infrastructure Investment System (IIS), with National Infrastructure Investment Agency (NIIA) should be constructed
• Improve rail links in Europe and with Asia
• Shipping Asia trade to Adria ports instead of north Sea ports much shorter and faster