TOPIC 2: The question of development and regulations of the impact of the national, regional, and the global currencies.

Introduction

Currency is a system of money that is generally accepted by society whether it is at a community level or an international level. It acts as a medium of exchange for the trade of goods and services, in which a currency has its value depending on society's decisions and points of view. In general, it is dependent on the circulation of the demand and supply.

A currency's value is changing constantly as each day there is a different quantity of demand and supply in the market. A high supply that leads to a lower price would increase the value of a currency as for each unit consumers could buy more products. Currency is also dependent on the international market, where its value could be calculated and shown through an exchange rate that compares two different currencies. This means that both domestic and international markets could play a role in determining the value.

The value of the currency plays a large role in today's economy as it impacts economic activities and people's living conditions. Without prudent and proper regulations, the currency could be unstable, which can drive people to enter a period of uncertainty and insecurity.

Definition of Key Terms

Local Currency

A local or regional currency is a currency that is widely accepted at a community level. For example, the Brixton Pound was accepted in the United Kingdom, but the country's official currency is Pound sterling. A national currency can be a local currency.

National Currency

A national currency or domestic currency is the official and legal money issued and controlled by a country's central bank or monetary authority.

Global currency

Global, international or world currency is a currency that is widely accepted to trade and transact throughout the world with no barriers.The current most popular global currencies are the United States (U.S.) dollars, euros, and the yen.

Foreign Exchange

Foreign exchange refers to the conversion and trading of a currency to another country's currency.

Foreign Exchange Reserve

Foreign exchange reserves, also called Forex reserves, are foreign currencies stored by the central bank. They are considered assets.

Inflation

Inflation means the general rise in price of goods and services and the fall of a currency value. For example, if currency X depreciates while currency Y stays constant, it takes more money to buy currency Y with currency X.

Background Information

The development and regulations of the impact of currencies have been significant since the early 20th century. In 1929, the Great Depression occurred, and deflation and the decrease in stock prices caused businesses to be driven out of business. It also became clear that the world has to reform their currencies system, and this leads to the devaluation of currencies and the abandonment of the gold standard (a system where the monetary value is fixed by the quantity of gold) to increase the number of exports and remove the old currency system for flexibility in future shocks.

In 1997, currency once again played its role in the world's economy. It was when the Asian Financial Crisis occurred, as countries with fixed exchange suffered. Thailand was the first to experience this after having its exchange rate reformed to a managed float. This was done to compete in the foreign exchange market as the United States attracted investors with higher interest rates, creating a hot money flow. Consequently, the country's currency was devalued compared to the U.S. dollars and there were not enough foreign exchange reserves to stabilise the currency. Soon, the East Asian countries got affected, the capital was flowing out of the region, and countries had their currencies devalued. The region experienced a recession, and asset and stock prices were decreasing. Japan also experienced depreciation in 1998, which also caused the East Asian currencies to further depreciate.

Then in 2008, the Great Recession started. Due to poor monetary regulation, banks in the world experienced a reduction in the ability of lending as they risked fueling the housing bubble (allowing people to buy houses easier). This soon caused a recession as financial institutions became bankrupt, and this caused the value of the currency to depreciate, which then led to a reduction in trade and unemployment in the world.

From 2020 until the present, most of the world's currencies depreciated due to the Covid-19 pandemic and the Ukraine War. Methodologies are being discussed to solve the problem regarding currencies, and to prevent an extreme crisis from occurring. However, the problems of the Covid pandemic and the Ukraine war are new issues that require different solutions, while reminiscing the past events.

Key Issues

Inflation and Uncertainty

Inflation became more significant during the critical period - The Ukraine War and the Covid-19. The period creates uncertainty for the consumers and suppliers and disrupts the demand and supply chain. Consequently, the price of commodities continues to elevate due to the demand and supply volatility and the rising cost of production, causing the national currencies to depreciate. This produces economic consequences such as firms continuing to shut down, while demands are not fulfilled. Also, many policies were initiated in different countries to mitigate the causes and effects of inflation (fiscal support, monetary and social policy), but inflation is still significant due to the urge for economic growth and import dependency. In addition, most developed and some developing countries tend to reduce interest rates though it could raise the inflation rate. Notably, a low-interest rate would not benefit long-term as firms and industries are vulnerable to the rise of interest rates.

Furthermore, due to uncertainty during the inflation period. Many developing countries experience portfolio investment outflow because investors transferred their capital back to themselves or other countries with less uncertainty. A decrease in portfolio investments means the investors are demanding less of the country's currency to opt for another country's currency. Therefore, developing countries' national currency experiences a depreciation in the foreign exchange market.

The uncertainty also creates the development of new local currencies. Due to the lack of demand and confidence, some small towns created new notes, such as the Tenino in the United States of America. New currencies were created to encourage more consumers to buy products in the town. The creation of new currencies is a concerning factor as they could disrupt the system of the official national currency, and could interfere with the cash circulation in an economy if they are not being controlled.

Economic Instability

The volatile currency changes cause economic instability in many countries. The depreciation in currency and the low foreign exchange reserves cause a rise in the price of imported goods and services, which increases the cost of production. As a result, firms have to make some of their workers redundant. Additionally, workers' real wages decrease, so they have even less purchasing power. These factors severely impacted some countries' economic conditions (mostly developing and under-developed countries) as the population became outraged due to the low poor wage and price ratio, leading to an increase in protests, violence and migrations.

United States Dollars dependence

The U.S. dollar, today, dominates the world's foreign exchange reserves, in which 90% of the foreign exchange trading and 40% of the world's debts involve U.S. dollars. It is regarded as the global currency as it is known for its stability and power, creating confidence in trade. However, after the sanction on Russia, this currency became more alert due to its high market share. Countries that have a high quantity of U.S dollars in their foreign exchange reserves are significantly dependent on the United States economies. An increase in interest rates in the United States in 2022 caused many countries' local and national currencies to depreciate. This raised the prices in those countries, affecting the population. providing economic instability.

Although recently there is an increase in the market share of other nations' currencies, it is still arguable that in the both short and long run, the world will still depend on the U.S currency. This is because if countries remove their U.S. dollar purchases, there will also be less investor reassurance as other alternatives might not be as strong as the U.S. currency. Also, it would take a very long period to implement these changes.

Timeline of Resolutions, Treaties, and Events

Date	Description of event
1929	The Great Depression occurs. Deflation occurs and the price index of goods decreases, along with demands, causing businesses and financial centres to go

	bankrupt. This soon caused a devaluation in the currency as it was removed from the gold standard.
1944	The Articles of Agreement of the International Monetary Fund were adopted at the United Nation Monetary and Financial Conference in Bretton Woods, New Hampshire. The articles involve consultation and involvement on the international monetary system.
1945	The CFA franc was established after the event in 1944. The currency was used in the colonies controlled by France.
1997	Asian Financial Crisis occurred after Thailand's government devalued their currencies against the U.S. dollars.Then, other East Asian countries got affected as well, leading to a recession.
1999	The euro was launched. It took several years for some countries in the European Union to start officially using the currency.
2008	The start of the Great Recession. A financial crisis occurred due to cheap credit, housing prices fell and low interest rates, causing the Great Recession to start in the United States.
2009	The Great Recession impacted the world significantly. Increase in unemployment, lower house values, less trade as of currencies depreciation and exchange rate volatility.
2019	An announcement on CFA franc reform was made. The currency would be replaced with the Eco, but required France's ratification.

2020	The beginning of Covid pandemic in the world after the announcement made by China in December 2019. The pandemic caused inflation, devaluing affected countries' currency as of lockdown, leading to poor demand and supply.
2022	The Ukraine War intensified the problems of the pandemic and countries are putting sanctions against Russia. Causing further depreciation in values of currency for many countries as import prices for basic commodities rise.
2022	Russia's president stated BRICS are developing on a new global reserve currency. BRICS aims to reduce the power of the U.S. dollar.

Possible Solutions

Possible solutions could be implemented on the impact of currencies. One of the solutions is to boost the aggregate supply through structural reforms and fiscal policies that aim at the supply sectors. The framework could include an increase in spending on child care and healthcare to support the vulnerable while boosting productivity and real income which results in lower inflation and boosting the national currency value. Governments could also improve the business environment and infrastructure through planning and spending to lower the average cost of production and provide long-term efficiency. This could be done by having more job training, reskilling, digitalisation, or reducing the dependence on imports.

Another solution is preparing for future financial instability and shocks. When tightening monetary policies, a rise in interest rates is possible in the future, financial institutions need to be aware of the losses due to loan origination (the process by which lenders apply for a new loan) decline and the rise in default rate (a percentage of the loan that is unpaid). Developing countries could also increase their liquidity by increasing their foreign exchange reserves. This could be done according to the International Monetary Fund (IMF) precautionary recommendation, which each country will have its suggestion. For example, the IMF suggests Vietnam maintain an appreciation in the buying rate of VND/USD of 2% per year. This would prevent the seller's currency from appreciating too much and having too much power in the foreign exchange market while having enough reserves for shock absorption and monetary intervention.

Additional solutions could aim at the population's food and energy resources. Nations can develop a plan for renewable energy resources to reduce the dependence on fossil fuels and oil - a cause of currency depreciation.

Food subsidies and cash transfers could solve the problems of poor access to highly-priced food as price control is not suggested as it could lead to further supply shocks and inflation, leading to devaluation.

Recommendations for Research

The chair recommends the delegates understand the issues regarding the countries' currency and their positions in the foreign exchange market. The issues are different and unique for each country, depending on their economy. Delegates could look at reports from the United Nations, International Monetary Funds, and banks regarding currencies and their recommendations on the issues. Additionally, due to the complexity of macroeconomics, the delegates could support their understanding and have a foundation by checking educational and financial websites and news articles such as Economics Help, Bloomberg, and the Balance. When writing the resolution, delegates should evaluate the clauses suggested, meaning delegates understand the limitations and benefits of the clauses and their short and long-run effects.

Bibliography

African Department. "Impact of the Global Financial Crisis on Exchange Rates and Policies in Sub-Saharan Africa." *International Monetary Fund*, March 2009, https://www.imf.org/~/media/external/pubs/ft/dp/2009/afr0903.ashx#:~:text=global%20financial%20crisis.-,Collapsing%20trade%20and%20financial%20flows%20led%20to%20substantial%20balance%20of,than%2010%20percent%20for%20others. Accessed 2 Oct. 2022.

Amadeo, Kimberly. "Why the US Dollar Is the Global Currency." *The Balance,* 16 March 2022, https://www.thebalancemoney.com/world-currency-3305931. Accessed Oct 2, 2022.

Cohen, Patricia. "The Dollar Is Strong. That Is Good for the U.S. but Bad for the World." *The New York Time*s, 26 Sept. 2022, https://www.nytimes.com/2022/09/26/business/economy/us-dollar-global-impact.html. Accessed 2 Oct. 2022.

Dooley, Michael, et al. "Seizures of foreign exchange reserves will not weaken the dollar's role as dominant reserve currency." *Centre for Economic and Policy Research*, 12 May 2022, https://new.cepr.org/voxeu/columns/seizures-foreign-exchange-reserves-will-not-weaken-dollars-role-dominant-reserve. Accessed 2 Oct. 2022.

International Monetary Fund. "Vietnam: 2022 Article IV Consultation-Press Release; Staff Report, and Statement by the Executive Director for Vietnam." *International Monetary Fund,* 5 July 2022, https://www.imf.org/en/Publications/CR/Issues/2022/07/05/Vietnam-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-520395. Accessed 2 Oct. 2022.

International Monetary Fund. "World Economic Outlook Update Gloomy and More Uncertain." *International Monetary Fund*, July 2022, https://www.imf.org/-/media/Files/Publications/WEO/2022/Update/July/English/text-en.ashx. Accessed 2 Oct. 2022.

Li, Ying, et al. "An Evaluation of the Impact of Monetary Easing Policies in Times of a Pandemic." *Frontiers*, https://www.frontiersin.org/articles/10.3389/fpubh.2020.627001/full. Accessed 2 Oct. 2022.

Papakonstantinou, Georgio. "Currency Performance: Worst & Best in June 2022." *AIRINC*, 26 July 2022, https://airshare.air-inc.com/currency-performance-worst-best-in-june-2022. Accessed 2 Oct. 2022.

Scruggs, Gregory. “Money talks: U.S. town prints own currency to boost coronavirus relief.” *Thomson Reuters, Foundation News*, 9 July 2020, https://news.trust.org/item/20200709101434-84sxx/. Accessed 1 Oct. 2022.

Tan, Su-Lin. “ASIA ECONOMY U.S. interest rates may be rising, but that won’t trigger another Asian Financial Crisis, analysts say.” *CNBC*, 23 Sep. 2022, https://www.cnbc.com/2022/09/23/analysts-discuss-us-interest-rates-dollar-asian-financial-crisis.html. Accessed 2 Oct. 2022.

“Asian Financial Crisis.” *Federal Reserve’s History*, 22 Nov. 2013, https://www.federalreservehistory.org/essays/asian-financial-crisis. Accessed 3 Oct. 2022.

“COVID-19 and global capital flows.” *The Organisation for Economic Cooperation and Development*, 3 July 2022, https://www.oecd.org/coronavirus/policy-responses/covid-19-and-global-capital-flows-2dc69002/. Accessed 30 Sept. 2022.

“Fiscal policy and excess inflation during Covid-19: a cross-country view.” *Board of Governers of the Federal Reserve System*, 15 July 2022, https://www.federalreserve.gov/econres/notes/feds-notes/fiscal-policy-and-excess-inflation-during-covid-19-a-cross-country-view-20220715.html

“Fragile economic recovery from COVID-19 pandemic upended by war in Ukraine.” *Department of Economic and Social Affairs*, https://www.un.org/en/desa/fragile-economic-recovery-covid-19-pandemic-upended-war-ukraine. Accessed 1 Oct. 2022.

“Global Depression.” *International Monetary Fund*, https://www.imf.org/external/np/exr/center/mm/eng/mm_cc_03.htm. Accessed 3 Oct. 2022.

“History and Purpose.” *European Union*, https://european-union.europa.eu/institutions-law-budget/euro/history-and-purpose_en. Accessed 2 Oct. 2022.

“The End of U.S. Dollar Dominance? Not So Fast.” *Diplomat Magazine*, 3 July 2022, https://diplomatmagazine.eu/2022/07/03/the-end-of-u-s-dollar-dominance-not-so-fast/. Accessed 1 Oct. 2022.

“Trends in central banks’ foreign currency reserves and the case of the ECB.” *European Central Bank,* July 2019, https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb.ebart201907_01~c2ae75e217.en.html. Accessed 30 Sept. 2022.

"UN DESA Policy Brief No. 129: The monetary policy response to COVID-19: the role of asset purchase programme." *Department of Economic and Social Affairs*, 9 Feb. 2022, https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-no-129-the-monetary-policy-response-to-covid-19-the-role-of-asset-purchase-programmes/. Accessed 1 Oct. 2022.