

CURRENCY DUALISM AND ITS IMPLICATIONS FOR THE STABILITY OF THE FINANCIAL SECTOR

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The dollar is a highly respected currency worldwide, earning considerable authority and deservedly holding the title of the most popular and widely used currency. A characteristic feature of the economies of transition countries is the dollarization of the monetary system. This dollarization of the economy refers to the process of replacing some (or all) of the domestic currency's functions with foreign currency: a store of value, a measure of value, and a medium of exchange.

In a national economy, dollarization allows for the use of freely convertible currency as a savings tool, including for the population, which contributes to a colossal outflow of capital abroad. But most importantly, dollarization contributes to Uzbekistan's loss of economic security. The current global crisis is steadily creating a new reality. Today, expert attention is focused on the topic of de-dollarization of the global economy. De-dollarization is generally understood as a system of measures taken by government agencies and the central bank of a given country to prevent the circulation of foreign currency as a means of payment within their own country. This process is quite lengthy.

The primary economic driver of dollarization is the preference of agents for the dollar over the national currency. This phenomenon occurs when the dollar is more stable and convertible than the national currency. The immediate cause that usually follows dollarization of the economy is weak government control over the money supply, which results in the national currency constantly depreciating. Therefore, agents are unwilling to hold assets in the national currency and optimize their asset portfolios in favor of the dollar. Therefore, research into de-dollarization processes should uncover their relationship with geopolitical and geoeconomic events and their impact on the global economy. A proper understanding of the de-dollarization process can contribute to maintaining financial stability and preventing financial crises, and will also assist in selecting the most effective strategies for preserving reserves and managing currency risks.

A large number of scholars have devoted their works to the issue of dollarization and de-dollarization of the global economy, as well as various theoretical and practical aspects associated with these phenomena: B. I. Alekhine [1], L. M. Borsch [2], E. M. Dudkova [3], M. V. Zharikov [4], D. V. Kozlova, E. S. Nikitina, O. A. Novitskaya [5], Yu. B. Kravchenko [6], Ya. A. Sapach [7], and others. R. Gouvea and M. Gutierrez, in their scientific work [8], examined the main consequences of the formation of a new global economic and political architecture, in which the US dollar may play a smaller role in global economic and financial markets. Wafa Fahmi Abdelati [9] examines recent global trends in dollarization growth and the experience of ensuring price stability in dollarized economies, as well as approaches to de-dollarization. At the same time, recent trends in global economic development and the increased efforts of individual countries to de-dollarize their

economies necessitate further research into the current trends and characteristics of this process.

The world's two largest economies - the United States and China - not only maintain their global leadership year after year, demonstrating remarkable economic, scientific, and technological achievements, but also forming a circle of partner countries around themselves, the strengthening of ties between which will likely lead to the formation of new institutional alliances or formations. Thus, the US sphere of influence already has a fairly long history and is formed by the G7 countries (USA, Canada, Great Britain, Germany, France, Italy, and Japan). China is the leader of the BRICS grouping (Brazil, Russia, India, China, and South Africa), which unites large countries with dynamically developing markets. However, it does not yet have the necessary international and integration influence, in part due to internal contradictions among its member countries.

Discussions about the US dollar losing its status as the world's reserve currency have been ongoing and have intensified during and after global financial and economic crises. This topic became particularly topical in 2008-2009, in 2020 amid the COVID-19 pandemic, and in 2023 following the rapid escalation of geopolitical and geoeconomic tensions between key players in the emerging multipolar world order. Over the past two decades, the share of global reserves in US dollars, due to various economic and political factors, fell from 72.3% in the first quarter of 2001 to 59.02% in the third quarter of 2023. During 2023, the global trend toward de-dollarization of the global economy gained even greater momentum than during previous crisis periods. This is manifested primarily in the fact that national economies, attempting to protect their financial systems from the "uncontrolled" flow of dollars, are switching to settlements in national currencies. In 2023, China and Brazil announced that they had reached an agreement to switch to settlements in their national currencies – yuan and reals – in bilateral trade¹¹.

Given the size of the Chinese and Brazilian economies and the volume of their foreign trade turnover (\$157.5 billion in 2022), this could have negative inflationary consequences for the United States, as the main issuer of the dollar. Besides Brazil, Argentina has also agreed to pay for Chinese imports in China's national currency. Comparing the volume of Brazil's (\$53.8 billion) and Argentina's (\$12.6 billion) imports from China, these are not significant volumes capable of raising dollar inflation expectations. However, this is yet another evidence of de-dollarization in the system of international economic relations¹². Problematic aspects of this process for China include the fact that China exports more than it imports, so it will inevitably hold large assets in Brazilian reals, which will significantly hinder investment. Also, in March 2023, an official meeting of ASEAN finance ministers and central bank governors was held in Indonesia. The main agenda item was reducing dependence on the US dollar, euro, yen, and British pound sterling in financial transactions and transitioning to settlements in local currencies¹³. For ASEAN member countries, the active use of local currencies means deeper regional financial integration, stronger regional value chains, and overall financial resilience to various challenges. India, the world's fifth-

¹¹ geopoliticeconomy.com

¹² oec.world/en

¹³ www.aseanbriefing.com/news/asean-finance-ministers-and-central-banks-consider-dropping-us-dollar-euro-and-yen-indonesia-calls-for-phasing-out-visa-and-mastercard

largest economy in 2022 with a GDP of \$3.39 trillion, is also contributing to the acceleration of the displacement of the US dollar as the currency of international settlements and is pursuing a campaign to internationalize its national currency¹⁴.

Based on the results of the study, it can be concluded that the dollar's role as the global reserve currency has been declining for several decades, but at the present stage and in the short term, no currency in the world is capable of fully replacing it in this capacity. Certainly, the development of digital assets and currencies; the proposed expansion of the use of the Special Drawing Rights (SDR) (the exchange rate is calculated daily based on a currency basket that includes the US dollar, euro, Japanese yen, Chinese yuan, and British pound sterling); and the creation of a fundamentally new reserve currency based on the SDR will ultimately lead to central banks and investors accepting new reserve assets, which will ultimately change the status of the US dollar as the global reserve currency.

Examples of the transition to settlements in national currencies between individual countries, the development of mechanisms for implementing a common currency, and the formation of currency blocs confirm the dissatisfaction of a number of countries with the results of the globalization of the monetary system. As a result, not only the trend toward de-dollarization of the global economy has accelerated, but also the regionalization and fragmentation of the geopolitical world. If leading emerging market economies achieve their desired goal of dedollarization, a weakening of the dollar will be a side effect. Concerns about the stability of the global financial system will also intensify.

However, the dollar, in addition to being a clear proxy for virtually all commodities, also serves as a clear "safe haven" for many investments and capital during financial turmoil. The weakening of such safe havens and diminished confidence in them will likely lead to less predictable and even more chaotic capital flows between different (short-term) jurisdictions. Naturally, in such circumstances, the greatest losses will accrue to those countries that, in the absence of financial benchmarks, are unable to hedge their risks. Therefore, given the dynamic nature of dedollarization processes in the global economy, the implications and prospects are complex and controversial, leaving ample room for further research in this area.

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¹⁴ [theprint.in/ economy/why-are-african-countries-others-pushing-for-de-dollarisation-trade-in-currency-other-than-the-usd/](https://theprint.in/economy/why-are-african-countries-others-pushing-for-de-dollarisation-trade-in-currency-other-than-the-usd/) 1631276

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