International Money and Monetary System

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Evolution of the International Monetary System

Before 1875	1875 – 1914	1915 – 1944	1945 – 1972	1973 – Present
Bimetallism	Classical Gold Standard	Interwar Period	Bretton Woods System	The Flexible Exchange Rate Regime

Evolution of the International Monetary System

Bimetallism	• Some countries were on the gold standard, some on the silver standard, some on both • Payment and the exchange rates among currencies were determined by either their gold or silver contents
Classical Gold Standard	• Exchange rate determined by their relative gold contents • Gold could be freely exported or imported • Conducive to international trade and investment • Supported by the *price-specie-flow mechanism*
Interwar Period	• Exchange rates fluctuated as countries widely used “predatory” depreciations • Participants lacked the political will to “follow the rules of the game” • International trade and investment was profoundly detrimental
Bretton Woods System	• Postwar international monetary system • Creation of the IMF and World Bank • Exchange rate stability achieved without the gold standard • US dollar was pegged to gold at $35 per ounce and other currencies were pegged to US Dollar • Dollar-based gold exchange standard • Collapse due to increased in money supply, significant inflation and speculation on the devaluation of Dollar
The Flexible Exchange Rate Regime	• Central banks were allowed to intervene in the exchange rate markets to prevent unwarranted volatilities • Gold was abandoned as an international reserve asset • Non-oil-exporting and less-developed countries given greater access to IMF funds

Which is Better – Fixed Rates or Floating Rates?

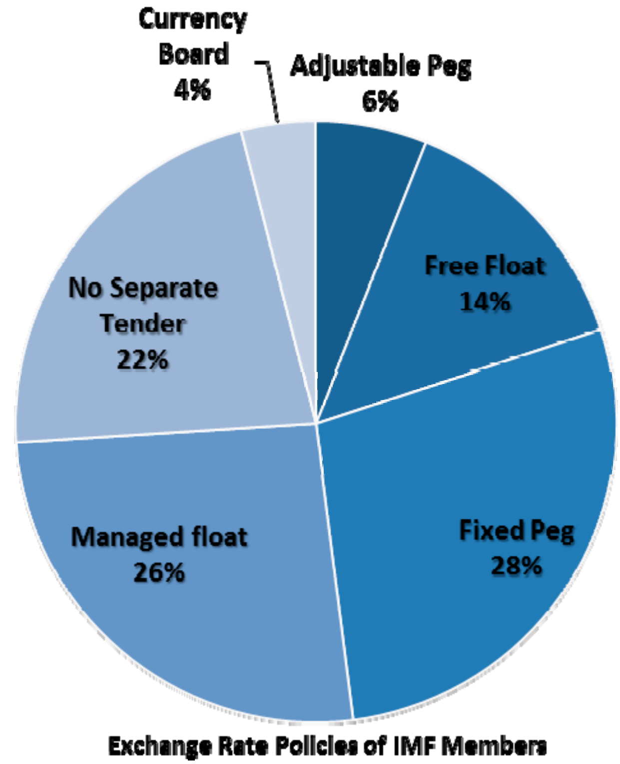
Floating exchange rates system

- Monetary policy autonomy
- Automatic trade balance adjustments

Fixed exchange rates system

- Provides monetary discipline
- Minimizes speculation
- Reduces uncertainty

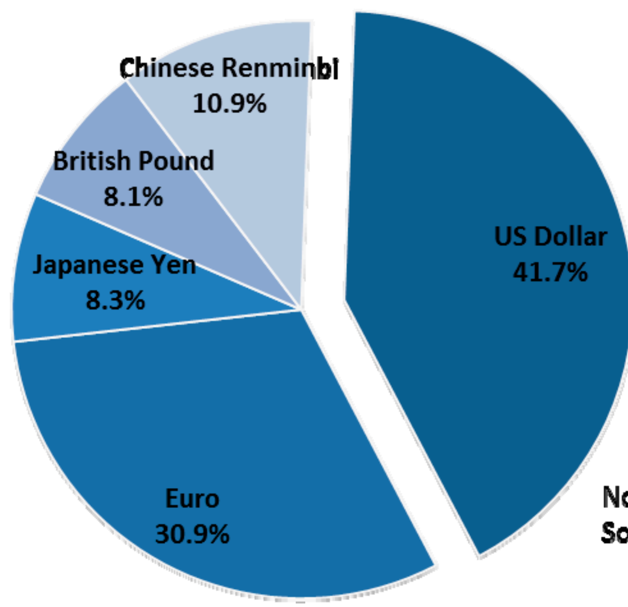
Type of Exchange Rate System is in Practice Today?



Special Drawing Rights (SDR)

- On 30 Nov 2015, IMF decided to include the Chinese renminbi as a fifth currency to the basket of Special Drawing Rights (SDR)
- Effective 1 Oct 2016, the SDR basket consists of the US dollar, euro, the Chinese renminbi, Japanese yen, and pound sterling

SDRs based on specific weight of gold[1]



Note: [1] Effective 1 Oct, 2016
Source: IMF

Policy for a new Global Monetary System

- The **US Dollar** is going to the primus inter pares in the medium term
- The **Euro** holds the potential to become more attractive once the Euro Zone has solved its debt crisis convincingly
- **China** begun to encourage foreigners to use the Renminbi (RMB), promoting the currency to international investors and central banks

Further international coordination of monetary and currency policies is a necessity	Reduced the central banks' influence on the domestic money supply
Correlation between capital mobility and crisis probability	Set of rules is required to regulate handling and form of capital movement controls (establishment of big currency reserves, introduction of capital movement controls, currency market interventions)
Develop globally valid rules for financial stability and facilitate national reforms	Not only monitor national economies, but also check the implications of contagion, synergy and feedback effects and be able to intervene when the need arises
More details and timely publication of important financial indicator is essential for an early warning system	Reform may require better intervention possibility by the IMF

What's Important

Managing volatility

- Availability of ample reserves
- Maintain strong economic fundamentals
- Manage exposure to external debt

IMF's role

- IMF could enhance effectiveness of the current monetary system
- Shared responsibility – strong, sustainable & balanced growth


Thank you