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QUALIFICATION PAPER

on the topic “THE US DOLLAR: CHALLENGES FOR DOMINANCE IN THE
GLOBAL ECONOMY”

Specialty 292 “International Economic Relations”

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ABSTRACT

on bachelor's degree qualification paper on the topic
“THE US DOLLAR: CHALLENGES FOR DOMINANCE IN THE GLOBAL
ECONOMY”

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The main content of the bachelor's degree qualification paper is presented on 45 pages, including references consisted of 42 used sources, which is placed on 4 pages. The paper contains 1 table, 4 figures.

Keywords: MONETARY SYSTEM, RESERVE CURRENCY, US DOLLAR, GLOBAL CRISIS, FINANCIAL MARKETS.

The purpose of the bachelor's thesis is to study changes in the global positions of the dollar and further prospects for its role in the global monetary and financial system.

The object of the study is the international monetary and financial system in the context of globalization.

The subject of the study is the current position of the dollar in the global monetary and financial system.

Research methods: analytical-monographic, logical generalization, factor analysis, cause-and-effect analysis.

The information base of the work is represented by the materials of international government organizations, the International Monetary Fund, the World Bank, the European Central Bank, the World Trade Organization, the US Federal Reserve System, the Food and Agriculture Organization of the United Nations, as well as scientific publications of domestic and foreign scientists on the subject under study.

According to the results of the study, the following conclusions are formulated:

1. It is revealed that the role of the United States in world production, trade and GDP naturally decreases as economic growth in developing countries – primarily in China, India, and other Asian countries – exceeds the average growth rates of developed countries.

2. The dollar is the main currency in international trade in goods and services and in the international financial system – when borrowing in the form of loans or issuing bonds in the banking and real sectors. From the point of view of states, the dollar is the main reserve currency and the anchor currency for full and partial fixing of exchange rates.

3. On the one hand, the balance with the central role of the dollar is very stable in the short and medium term. On the other hand, the diminishing role of the US in world production and trade is likely to lead to a transition to a new equilibrium in the long run, where other global and regional currencies, such as the euro and the yuan, will play a larger role. But none of these currencies can yet become a potential replacement for the dollar as a safe asset currency, which is based on the reputation of the institutions that support it – an independent central bank and judiciary, as well as a political system of checks and balances that guarantees, in particular, fiscal discipline government.

4. Analyzing the position of the US dollar in the global economy, it is worth paying attention to the larger volumes of US government debt, which entails significant changes in the international monetary system. If the country's boundless debt growth is not brought under control, this will lead not only to instability in the global financial system, but also to a loss of confidence in the dollar and in the US economy as a whole.

5. Against the backdrop of the Russian-Ukrainian war, it is relevant to study the influence of the dollar on Russia and its allies. It is likely that the ban on the US dollar as part of the economic sanctions imposed on the Russian Federation may be retroactive to the US dollar and weaken its role in the global economy. At the same time, the dollar may also lose its reputation as a stable and reliable

payment world currency, giving way to the Chinese yuan and the system of settlements between countries in national currencies.

Results of approbation of the basic provisions of the bachelor's degree qualification paper were considered at International scientific-practical conference "International economic relations and sustainable development", March 20, 2022, Sumy, Ukraine.

Year of completion of qualifying work – 2022.

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TASKS FOR BACHELOR'S DEGREE QUALIFICATION PAPER

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Brehova Zhanna Vitaliivna

1. The theme of the paper is "The US dollar: challenges for dominance in the global economy".

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2. The term of completed paper submission by the student is 27.05.2022.

3. The purpose of the qualification paper is to study changes in the global positions of the dollar and future prospects for its role in the global monetary and financial system.

4. The object of the research is the international monetary and financial system in the context of globalization.

5. The subject of research is the current position of the dollar in the world monetary and financial system.

6. The qualification paper is carried out on the basis of materials from international government organizations, in particular the International Monetary Fund, the World Bank, the European Central Bank, the World Trade Organization, the US Federal Reserve System, the Food and Agriculture Organization of the United Nations, as well as scientific publications of domestic and foreign scientists on the subject under study.

7. Approximate qualifying bachelor's paper plan, terms for submitting chapters to the research advisor and the content of tasks for the accomplished purpose are as follows:

Chapter 1 The emergence and main stages of the formation of the US dollar.

Chapter 1 deals with the historical aspects of the formation of the US dollar as a world currency; considers the features of the monetary policy of the Federal Reserve System, and assessment of its impact on the position of the US dollar in the global economy; till 11.04.2022.

Chapter 2 The impact of the dollar on the world economy.

Chapter 2 deals with analyses of changes in the scale of the use of the US dollar in international monetary and financial markets; explore the features, scope and consequences of the use of the US dollar in the monetary systems of individual countries; till 27.04.2022.

Chapter 3 Reducing the influence of the US dollar as an international settlement currency.

Chapter 3 deals with the research assessing the prospects for maintaining the position of the leading world currency behind the US dollar; till 18.05.2022.

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INTRODUCTION

The relevance of research. The world monetary system is constantly in a state of evolution and significantly affects the development of the entire global economy. For quite a long time, the main currency element of the system has been the world currency – the US dollar, which provides economic exchange in the international system. Overall, the US dollar dominates in servicing operations in world trade in the global capital market, in the world's official reserves. However, with the receipt of the status of a global currency, the role of the US dollar is still gradually losing its position in the evolutionary processes of the monetary system. It changes mainly under the influence of the transformation of the US position in the world economy.

The purpose of the bachelor's degree qualification paper is to study changes in the global positions of the dollar and further prospects for its role in the global monetary and financial system.

In accordance with the purpose of the qualification work, the following tasks were set:

- to analyze the historical aspects of the formation of the US dollar as a world currency;
- consider the features of the monetary policy of the Federal Reserve System and assess its impact on the position of the US dollar in the global economy;
- to analyze changes in the scale of the use of the US dollar in international monetary and financial markets;
- explore the features, scope and consequences of the use of the US dollar in the monetary systems of individual countries;
- assess the prospects for maintaining the position of the leading world currency behind the US dollar.

The object of research is the international monetary and financial system in the context of globalization.

The subject of the study is the current position of the dollar in the global monetary and financial system.

Research methods: analytical-monographic, logical generalization, factor analysis, cause-and-effect analysis.

The information base is represented by the materials of international government organizations, the International Monetary Fund, the World Bank, the European Central Bank, the World Trade Organization, the US Federal Reserve System, the Food and Agriculture Organization of the United Nations, as well as scientific publications of domestic and foreign scientists on the subject under study.

1 THE EMERGENCE AND MAIN STAGES OF THE FORMATION OF THE US DOLLAR

1.1 The history of the appearance of the dollar as a currency

The United States dollar is the monetary unit of the United States of America, one of the world's main reserves. 1 dollar = 100 cents.

The first dollars were silver coins. At times later, banknotes appeared that were greenish in colour.

The name “dollar” itself comes from the word “Joachimstal” – the name of a coin of the 16th century minted near the silver mine in Joachimsthal in the modern-day Czech Republic. Later Joachimstal was shortened to “thaler”, this word was reflected in Danish and Swedish dalers, Dutch dalers, Ethiopian thalaris, Italian thalers, Flemish dalders and dollars in English [1].

Earlier the word “dollar” or “thaler” referred to different coins at different times. In colonial America, this was the name of the Spanish coin of 8 reals, which was widely used even after the revolution in the 18th century. The US government adopted its own currency in 1785. The main currency was the dollar, minted in the United States, which began in 1794.

Before 1861, the United States did not have a single banknote system. Most transactions were done through private banks. At that time, the quickly redeemable “Treasury Notes” issued by the US Treasury between 1793 and 1861 could not be considered full-fledged banknotes. When the Civil War broke out, the two warring countries needed large sums of money. On July 17, 1861, the United States Congress passed an act of obligation for the treasury to issue a new stock of money for the crazy sum of 60 million dollars [2]. The order was sent to a printing company in New York, the “American Bank Note Co.”.

In 1865, the Treasury Department created a special Secret Service in the United States to combat counterfeiting.

At the time, it was estimated that counterfeit money accounted for one-third of the total amount of currency in circulation [3].

In image 1.1, we can see the appearance of the 1862 dollar banknotes, predominantly green in their original form.



Fig. 1.1 – Banknotes of the Civil War (Greenbacks) 1, 5, 10 US dollars
1862 [4]

Considering that the July 17 act authorized the issuance of only such denominations as 5, 10 and 20 dollars, it is difficult to imagine how huge a number of banknotes were produced. The printers, estimating how large the volume of work is based on ink supplies, chose the green colour, since it was more than all the others.

In this way, millions of banknotes with a reverse green side were issued, as a result, they received the nickname "greenbacks" among the people, which was assigned to the American currency. Later, the Treasury itself adopted the tradition

of printing in green and only in 2004 began to issue banknotes of other colours. Periodically, it was proposed to remove \$1 banknotes from circulation and replace them with coins. However, the US Congress did not take such a decision [4].

So, the word "dollar" and the corresponding sign (\$) are much more ancient than the currency itself. The history of the emergence, development, circulation and strengthening of the dollar is a whole era. The above material describes one of the most common versions of the emergence of the dollar and the historical facts of the appearance and strengthening of the dollar as the US currency.

1.2 Rise of the dollar as a world currency

Turning to history, we can find out that in 1972 the United States established that one troy ounce contained 19.3 dollars. In 1834, they gave 20.67 dollars per troy ounce since the United States did not have enough gold reserves to provide the entire volume of issued money, and the exchange rate was reduced. After the First World War, the devaluation continued, and in 1933 the gold parity of the dollar was abolished, and its convertibility was introduced.

In 1934, 35 US dollars per troy ounce raised the discount rate to maintain a fixed peg of gold to the dollar, but this option did not help. In connection with subsequent wars, the gold of the old world moved to the new, thanks to which the peg of gold to the dollar was restored for a while

Until 1900, the dollar was freely exchanged for silver and gold; from 1900 to 1934, only for gold. From 1934 to 1975, only the exchange was made only for foreign governments.

In 1944, the Bretton Woods Agreement was adopted, and a gold exchange standard was introduced based on gold and the US dollar currency and the pound sterling. It ended the monopoly of the gold standard. Later, only the dollar was

backed by gold; the government promised an exchange rate of \$35 an ounce and made the dollar the reserve currency.

Due to the foreign trade deficit and high inflation at the end of 1960, the market price of gold began to exceed the established one. In 1971, President Richard Nixon carried out several devaluations and suspended the exchange. In subsequent years, the exchange rate only grew.

In 1976, at the Jamaica Conference, a complete rejection of the gold standard in the global financial system was officially announced. So far, the dollar has "by inertia" remained the main world reserve currency. In 1979, President Jimmy Carter appointed Paul Volcker as chairman of the Federal Reserve. Volcker managed to curb inflation by reducing the money supply and tightening monetary policy [5].

Between 1965 and 1981, the US dollar lost two-thirds of its value [6]. It is because the Fed was aiming for a low, stable inflation rate and not zero inflation.

According to a survey by the International Monetary Fund (IMF), the share of dollar reserves in holdings reached its lowest level in 25 years, falling to 59%. According to some IMF analysts, this reflects the declining role of the US dollar in the global economy in competition with other currencies.

Examining the data from 1999 to 2020, we can note that the share of US dollars and their assets in central bank reserves has decreased by 12 percentage points (from 71% to 59%) since the introduction of the euro in 1999. The euro fluctuated at of 20%, and other currencies, including the Australian dollar, the Canadian dollar, and the Chinese yuan, rose to 9% [8].

According to IMF analysts S. Arslanalp and C. Simpson-Bell, fluctuations in exchange rates can also impact the currency structure of central banks' reserve portfolios. The effects may also relate to changes in the relative value of various government securities. However, their impact will generally be smaller since the dynamics of bond yields in such currencies usually coincide.

When the US dollar weakens against major currencies, its share of world reserves tends to decline as the dollar value of reserves denominated in other currencies rises.

In turn, the exchange rate of the US dollar can be influenced by many factors, including the divergence in the trajectories of the development of the US economy and other countries, differences in monetary and fiscal policies, as well as the sale and purchase of foreign currency by central banks [8].

So, despite significant structural changes in the international monetary system over the past sixty years, the US dollar remains the dominant reserve currency. Summing up, we note that the difference in the US dollar exchange rate, like any other currency, is influenced by external and internal factors. Inside the country, this is the dynamics of export/import of goods, services, capital, the state of the trade and balance of payments, economic growth, and national monetary policy. Also, the dollar exchange rate fluctuates under the influence of changes in the economy of other countries, and, above all, in Western Europe and Japan, and, accordingly, fluctuations in the exchange rates of the euro and the yen. In specific periods, the main foreign exchange markets were greatly influenced by the coordinated decisions and actions of the central banks of the largest developed countries.

1.3 The dollar as a system of government

To understand how the dollar plays the role of an instrument in the system of government, you need to know how the dollar and its currency supply are created.

The First Bank of the United States of America, created by A. Hamilton in 1791, was the first institution to act as the central bank of the United States, but its authority was not renewed in 1811. In 1816, the Second Bank of the United States was formed, but after criticism from President E. Jackson, its powers were also not

renewed in 1836. From 1863 to 1913, the central bank did not formally exist; this time is called the "era of free banks" in the United States.

The timeline of US central banks is given below:

- 1791 –1811: First Bank of the United States;
- 1811 –1816: There was no central bank;
- 1816 –1836: Second Bank of the United States;
- 1837 –1862: The era of free banks;
- 1863 –1913: National banks;
- 1913 – present: FRS.

The Fed – is the American central bank that regulates the US financial system. The Fed was created in 1913 and had been issuing dollars and withdrawing them from circulation, controlling interest rates, and overseeing the US private banking sector ever since.

The state takes the decisive role in the management of the Fed, although the ownership of capital is private – joint-stock, with a special status of shares. On the management side, the FRS is an independent body of the US government. Like a national central bank, the FRS receives its authority from the US Congress. Independence in work is shown by the fact that the authorities do not have to approve decisions made about monetary policy. The FRS is not funded by Congress.

The term of office for members of the Fed's Board of Governors spans multiple terms as presidents and members of Congress. At the same time, the FRS is controlled by Congress, which often analyzes the activities of the FRS and can change the FRS's responsibilities by legislative means [9].

The basis for the creation is the Federal Reserve Act. The law was promulgated by President W. Wilson on December 23, 1913 [9]. In Figure 1.2, we can see the 1913 newspaper clipping that published the “Federal Reserve Act”.



Fig. 1.2 – Newspaper clipping announcing the passage of the Federal Reserve Act on December 24, 1913 [9]

The Fed's structure is strikingly different from the structures of most central banks in the world. Decision-making is the responsibility of the twelve regional system members, who can control interest rates. It determines the growth trends of the economy, having a significant impact on its development.

The FRS includes [10]:

- Central Board of Governors in Washington;
- Twelve Federal Reserve Banks that are not part of the state structure.

These corporations are located in major cities like New York, Philadelphia, Boston, Cleveland, Atlanta, Richmond, Chicago, St. Louis, Kansas City, Minneapolis, San Francisco and Dallas. Shareholders are private banks;

- Committee for Open Market Operations.

Private owners run the Federal Reserve System. Mostly they are foreign bankers. In 1913, America was given by Congress into debt slavery to the Fed. Now she has the right to issue dollars and has acquired control over the States' economic system.

The significant shareholders of the Federal Reserve own more than 200,000 shares of the Fed. 65% of them belong to foreign citizens, and the rest of their share is distributed among the following banks:

- National City Bank – 30 thousand shares;

- Bank Chase National (now Chase Manhattan) – 6 thousand shares;
- National Bank of Commerce (today it is Morgan Guaranty Trust) – 21 thousand shares;
- First National Bank – 15 thousand shares.

The Fed's current functions include:

- fulfilment of the obligations of the US central bank;
- maintaining a balance between the interests of commercial banks and national interests;
- ensuring supervision and regulation of banking institutions;
- protection of credit rights of consumers;
- supporting the growth of monetary aggregates;
- promoting the effective achievement of employment maximization goals;
- maintaining price stability and maintaining moderate long-term interest rates;
- ensuring the stability of the financial system, control of systemic risks in financial markets;
- providing financial services to depositories, including the US government and official international institutions;
- elimination of liquidity problems at the local level [10].

The relationship between the president, who is responsible for fiscal policy, and the head of the Fed, who is responsible for the state's monetary policy, is not always cloudless. So, thanks to Jimmy Carter in 1970, Paul Volcker was chosen to the post of chairman of the Federal Reserve. To cope with the severe inflation after the oil crisis, Volker radically raised the interest rate and thus caused a temporary recession. Inflation was overcome, but Carter was not re-elected president. In 1987, A. Greenspan replaced P. Volcker as chairman of the Fed, and from 2018 to the present, the post has been occupied by D. Powell.

The Fed can greatly influence the global economy. Most developing countries continue to struggle due to tight Fed monetary policy, rising US interest rates, and a stronger dollar, leading to capital outflows (or a ban on foreign investment inflows) and complicating external debt servicing. This development could lead to a slowdown in demand and trade in the US, lead to capital outflows and depreciating currencies in emerging markets.

2 THE IMPACT OF THE DOLLAR ON THE WORLD ECONOMY

2.1 US dollar as an international settlement currency

In international finance, the world currency is the currency that serves as the main reserve currency and in which most international payments are made.

One of the dominant accounting currencies in the world is the US dollar. To delve into the question of what an international settlement currency denominated in the US dollar is, a short digression into history is needed regarding what international settlement currencies used to be and what they were.

The most famous commercial coin used for foreign trade was the Spanish peso. The taler-type silver coin was first issued by Charles I (1516–1556), and had a denomination of 8 reales [17]. Initially, the coat of arms of Spain and the Pillars of Hercules were depicted on the coin. Under Charles III (1759–1788), the pillars were replaced by a portrait of the monarch, which remained on the coin until the revolution of 1820–1823. The minting of these coins in Spain continued until 1868. The primary raw material was silver, mined in Mexico, which began a parallel minting of its own coin after gaining independence at the beginning of the 19th century, which lasted until 1888.

The total number of coins of this type issued by Spain and Mexico is estimated at 3 billion for the entire time of minting. These coins were popular in Europe, Asia, Africa and America, often appearing in the form of imitations and receiving local names: Spanish or Mexican dollar (North America), Shanghai dollar (China), piastres (Europe, where imitations were minted by France, Prussia, Denmark, Britain), octagon (USA), patacao (Arab countries, Portugal, Brazil), pataca (North Africa), macuquin (Mexico), gourde (France), kurush (Turkey, Egypt), carolus, colonato or columnario (in most Spain). The peso became the direct prototype of currencies like the US dollar, Turkish kurush (piastre), Macau pataca, Haitian gourde [18]. Figure 2.1 shows what the Spanish peso looked like in 1768.



Fig. 2.1 – Peso–Spanish dollar [17]

International trade was conducted in currencies, which were represented by the available weight of gold (the gold standard). At the time, most national currencies were essentially just different ways of measuring the weight of gold. Based on this, it is believed that gold was the first world currency. But the First World War significantly affected world trade and changed the financial system based on the “gold standard”. In 1944, the Bretton Woods Agreement was signed – an international system for organizing monetary relations and trade settlements established due to the Bretton Woods Conference.

After the Bretton Woods conference, the exchange rate of many national currencies was compared to a fixed exchange rate of the US dollar, which could be exchanged for a set amount of gold. It led to the dominance of the US dollar as the global currency.

Since the middle of the 20th century, the de facto world currency has been the US dollar. As R. Gilpin wrote in *Global Political Economy: Understanding the International Economic Order* (2001): “Approximately 40–60% of all international financial transactions are denominated in dollars. For decades, the dollar has been the world's main reserve currency; in 1996, two-thirds of all central bank foreign exchange reserves were held in dollars.”

Many world currencies tie their exchange rate to the US dollar. Some countries (Ecuador, El Salvador and Panama) abandoned their national currency by switching to the US dollar.

However, not everything is as smooth as it might seem at first glance. The fact is that the United States has competitors on the world stage, especially economic ones, such as the EU countries and China, which do not like the hegemony of the US dollar in the international economy. As a result, over the past decade, such a concept as "Dedollarization" has arisen, replacing the US dollar in international payments, which is actively taking place in the 21st century. De-dollarization is the reverse of the dollarization process that took place during the 20th century.

So, in March 2009, in the context of the global economic crisis, China and Russia began to raise the issue of an urgent review of the role of the world currency [19].

The de-dollarization trend began in 2014 when there were risks that the West could disconnect Russia from the SWIFT international settlement system and freeze the country's deposits in US government bonds.

In 2014, Russia and China signed an agreement that allowed each country to access the other country's currency without buying it on the foreign exchange market. In 2017, the deal was extended for three years. However, in 2018, China refused to sign an intergovernmental agreement with Russia on settlements in national currencies, which had been in preparation since 2014. This agreement to replace the dollar with national currencies for international payments between countries was concluded in 2019, while Moscow and Beijing agreed to develop alternative payment mechanisms for settlements. In 2018, Russia decided to get rid of dollars in its reserves as much as possible [20].

The share of the American currency in settlements between Russia and the BRICS countries decreased from 79.9% to 50.4% (by \$17.45 billion in the first half of 2019 compared to the same period in 2018). In June 2019, the European

Central Bank described Russia as one of the main drivers of “de-dollarization” in 2018.

"Russia has never set itself the task of moving away from the dollar as a payment instrument, but the country is forced to secure itself." – President of Russia V. Putin (October 2019). The Russian president also pointed out that the United States was trying to use the currency as an instrument of political struggle and considered such actions by Washington a big mistake. He noted that world settlements in dollars are declining, and confidence in this currency is falling [21]. In the fall of 2019, the largest companies in the Russian oil and gas sector, Rosneft and NOVATEK, excluded the US currency from payments under export contracts [27]. In the first quarter of 2020, the dollar's share in trade between Russia and China fell below 50% for the first time in history.

According to State Duma deputy Aksakov, the share of settlements with China in rubles may reach 50% in the coming years, while now the figure is at the level of 10%. Payments in rubles and yuan will also be made under contracts previously concluded in dollars. In the military-technical cooperation of Russia, there has practically been a departure from settlements in dollars. Calculations in 2019 were mainly made in national currencies, primarily in rubles [22].

In the early 2020s, there was a sharp reduction in Russia's investments in the US public debt (for example, over several months of 2021, the volume of long-term bonds decreased by more than five times, and short-term bonds by a third) [28]. On March 23, Putin announced his intention to transfer payments for gas supplies to states unfriendly to Russia (the United States, most EU countries and other countries that supported the US and NATO sanctions in 2022) into Russian rubles by March 31 [23].

International payments for many important groups of goods, such as gas and oil, between Russia and the EU countries have opened ruble accounts to pay for gas [24].

Let us pay attention to the situation in China, where the process had already begun actively, when in 2018, D. Trump unleashed a trade war against the country, unilaterally raising tariffs on imports of goods from China.

In response to this, at the beginning of 2020, the Central Bank of China introduced a national cryptocurrency (digital yuan) in four cities of the country as part of a pilot program. Digital currency gives the PDA the ability to track all transactions in this currency, providing access to the financial data of any user around the world [24]. According to Deutsche Wirtschafts Nachrichten, China has launched a process of de-dollarization, abandoning the use of the US dollar. The countries of the Asian region are gradually abandoning the American currency in trade in favour of national currencies.

The Association of Southeast Asian Nations has developed a plan that builds on China's incredible success in ditching the dollar. The governments of these countries conclude bilateral agreements only in national currencies. Agreements on the transition to such operations in cross-border trade have already been signed by Japan, Indonesia, Thailand, Malaysia, Indonesia, and the Philippines.

Thus, in June 2020, the Chairman of the Securities Control Committee of the PRC, Fang Xinghai, stated that "China should prepare for a possible disconnection from the SWIFT global settlement system" [25].

Russia, India and China have been discussing the transition to trade in national currencies for several years now, as various sources worldwide write about.

Also, in 2019, Saudi Arabia threatened the United States to refuse to sell its oil for dollars if Washington passed a bill allowing the US authorities to file antitrust lawsuits against members of the Organization of the Petroleum Exporting Countries [25].

American sanctions and the aggressive behaviour of the White House, which is ready to cause serious damage to its allies for the sake of its own commercial and ideological interests, stimulate response actions around the world: for example, it is possible to create a system of "gold payments" invulnerable to American

restrictions, which Turkey and Qatar can join. Malaysia and Iran (the issue was considered at a meeting of leaders of leading Muslim countries at a conference in Kuala Lumpur in 2019) [26].

In 2020, the euro became the most used currency for global payments, overtaking the dollar for the first time since February 2013 in terms of popularity in international payments. Countries against which the United States actively imposed economic sanctions reduced the dollar's share in interstate trade settlements, which weakened the leadership of the dollar in the global economy. First of all, this concerns the settlements of Russia, Iran, and Venezuela with trading partners from Europe, America and Asia [27].

In 2021, the first country appeared globally where bitcoin, El Salvador, will be used as a national currency along with the US dollar [27].

Summing up, in our opinion, the new currency may displace the dollar very soon. But while, the dollar is taking advantage of the fact that there is no real alternative to it. The euro does not have an institutional foundation; gold is not liquid enough, and the yuan is not yet even convertible, not to mention the fact that the legal nature of the state does not back it.

2.2 Analytical characteristics of the financial turnover denominated in US dollars

The Fed, which serves as the nation's central bank, has been responsible for the production, distribution, and accounting of US dollars since 1913. The amount of money produced depends on the needs of the US.

After World War II, the US dollar became the world's primary reserve currency, replacing the British pound sterling. Although ties with gold have already been severed, the US dollar remains the world's leading currency for international trade.

Expert's attribute this to the dollar's dominant role as a means of international settlements. Today, between a third and a half of the dollar supply printed in the US goes abroad.

According to the US Department of the Treasury, approximately 99% of issued dollar bills and coins are now in free circulation. From 2017 to 2020, the number of dollars in circulation increased by 8.7% [31] and reached \$2,040.7 billion [32]. Details on the turnover of the dollar from 2017 to 2020 can be seen in Table 2.1

Table 2.1 – Circulation dollar 2017–2020, in billions of banknotes as of December 31 of each year [31]

Year	\$1	\$2	\$5	\$10	\$20	\$50	\$100	\$50 to \$10,000	Total
2020	13.1	1.4	3.2	2.3	11.7	2.3	16.4	0.0004	50.3
2019	12.7	1.3	3.2	2.1	9.5	1.8	14.2	0.0004	44.9
2018	12.4	1.3	3.1	2.0	9.4	1.8	13.4	0.0004	43.4
2017	12.1	1.2	3.0	2.0	9.2	1.7	12.5	0.0004	41.6

In April 2019, the average daily trading volume in the US foreign exchange market increased by more than \$100 billion compared to three years earlier [33]. However, the UK Forex market has been larger throughout this period: in April 2019, its average daily turnover was 3.58 trillion dollars [5]. These values refer to the general foreign exchange market. The turnover of the foreign exchange market per day is a figure that is measured only once every three years; data for 2020 has not yet been provided.

Based on the IMF data Structure of official foreign exchange reserves for the fourth quarter of 2020, the share of dollar reserves in central bank holdings fell to 59%, the lowest level in 25 years. According to some analysts, this partly means a decrease in the role of the US dollar in the global economy, as there is competition with other currencies that central banks use in international transactions. If changes

in the structure of central banks' reserves reach critical levels, they may impact the foreign exchange market and the bond market.

For 2021, when adjusted for exchange rate changes, the share of the US dollar in reserves has remained broadly stable. However, from a longer-term perspective, the fact that the value of the US dollar as a whole has not changed, while its share in world reserves has declined, suggests that central banks are indeed phasing out the US dollar.

The share of the US dollar in global reserves is expected to continue to decline as central banks in emerging markets and developing countries seek to diversify the currency composition of their reserves further. Several countries have already announced their intention to do so.

Thus, based on all of the above, it becomes clear that the financial turnover of the US dollar is increasing its mass, which indicates the importance of this currency in world circulation since the US dollar is the settlement currency in many countries and thereby strengthens its position in the world currency market. The factor that most economic transactions occur in US dollars also influences which spreads the currency abroad. Consequently, despite significant structural changes in the international monetary system in recent years, the US dollar remains the dominant reserve currency.

2.3 Alternative to the dollar as the world's reserve currency

Despite its many shortcomings, the US dollar has a strong position in global finance because its alternative currencies have many even more severe drawbacks.

The decentralized fiscal policy of the European Union aimed at making the euro the world's leading currency, which is now in second place. The eurozone economy is characterized by heterogeneity and different indicators of the socio-economic development of the economies of the alliance's countries.

Decentralization of reserves and social problems, an ageing population, tight labour markets and more stringent government regulation than in the US create additional barriers to investment in the European economy.

To make the euro a truly global currency, it is necessary to expand the boundaries of its use in international trade and financial transactions, going beyond the region immediately adjacent to the euro area. In the long term, the solution to this problem will largely depend on overcoming the structural and other difficulties that stand in the way of economic growth and the integration of the financial markets of the European Union. An important role will be played by the EU's ability to act as a united front in the international arena, including financial issues.

In turn, China's economic well-being is growing at a significant pace. Against this background, the authorities try to make the yuan replace the US dollar as the world's leading currency. The currency of the People's Republic of China also has its drawbacks. For internationalization, the Chinese yuan must go through three stages. Become a settlement currency, then an investment currency, and only a reserve currency. The transformation of the yuan into the world's reserve currency will require major domestic reforms, including creating an open capital market and establishing a floating exchange rate.

It will be necessary to reform the legislation in financial market regulation. Refuse indirect methods of regulation. It is also essential to improve the restructuring of the Chinese economy and the transition from an export-oriented model to an economy focused on domestic demand. Additionally, it is necessary to reform the banking and financial systems and align them with international standards.

The high degree of economic instability, and the irreversibility of the foreign exchange rate, even with China's high economic growth rates, deprive investors, including the central banks of other countries, of the opportunity to keep their reserves in yuan. In addition, the US is a major importer of Chinese goods; since transactions are denominated in US dollars, the latter will continue to accumulate in Chinese reserves.

Given the size of the reserves and limited investment opportunities, Beijing has no choice but to support the US economy. Looking ahead, the emergence of the yuan as a reserve currency is seen as a positive development for the stabilization of the international financial system.

An analysis of the dollar's position in world reserves, as well as the shortcomings of alternative currencies, suggests that in the short and medium-term, the dollar will continue to dominate the reserves of countries. However, the development of world finance will lead to a diversity of reserves, perhaps even to a multicurrency system.

3 REDUCING THE INFLUENCE OF THE US DOLLAR AS AN INTERNATIONAL SETTLEMENT CURRENCY

3.1 The main problems of dollar printing and issue turnover

All US federal notes issued since 1861 are still legal tender. Since 1971, the supply of the US dollar with gold reserves has been canceled. Banknotes of denominations are present and issued for free circulation: 1, 2, 5 dollars, 10 dollars, 20 dollars, 50 dollars, and 100 dollars.

There are still \$500, \$1,000, \$5,000, \$10,000, and \$100,000 banknotes in circulation (for domestic Fed and Treasury payments). So far, only 130 of the issued \$10,000 notes monitored by the Fed and last issued in 1944 (1934 series) have been withdrawn from circulation. Therefore, their cost in catalogues is usually not indicated at all.

Previously printed denominations were 500, 1000, 5000, 10,000 and 100,000 US dollars. They were used mainly in interbank settlements and between criminal gangs. However, since 1936, they stopped printing, and in 1969, they were withdrawn from circulation by order of President Richard Nixon.

The largest denomination of US\$100,000 was issued in 1934. These banknotes were never made available to the general public and were used for settlements between government financial institutions. Currently, the largest banknote has a denomination of 100 US dollars. Banknotes in denominations of 500, 1000, 5000 and 10,000 US dollars were issued until 1946, and since 1967, they have been officially withdrawn from circulation. However, all dollars ever issued by the US remain legal tender.

Approximately 35 million banknotes of various denominations are issued daily in the United States, totalling about US\$635 million. 95% of banknotes are printed annually and are used to replace worn-out money. The basic design of most dollar bills was approved in 1928. The banknotes feature portraits of US politicians.

They are traditionally protected from fraud. Banknote paper is made by only one company, which is prohibited from selling to anyone other than the US federal government. The ink formula is a secret of the US Bureau of Engraving and Printing. 1990 US begins to produce dollars, which are later protected by inline printing. The defence of the US dollar has been further strengthened since 1996.

A new version of the \$20 bill appeared in 2003, 50th in 2004, 50th in 2005, 100th in 2005, 10th in 2006, and 5th in 2008. In 2011, a new design of the 100 dollar bill appeared; now, they are blue. The portrait and vignette of B. Franklin became larger. Symbols of freedom occurred in the updated design of the American currency: words from the Declaration of Independence, a pen, and an inkwell. The reverse depicts the northern facade of Independence Hall. According to experts, these changes complicate the possibility of counterfeiting banknotes and make it easier to determine their authenticity.

To successfully combat the population, it is planned to change the design of US dollars every 7–10 years. It means that old banknotes are withdrawn from circulation, although they remain in force without fail. The US does not have a state central bank. The right to issue money has 12 private bank members of the Fed. The territory of the United States was divided into 12 districts, each of which had its own Federal Reserve Bank, which had numerical letter designations.

Fed banks located in the centers have the right to print banknotes. They spend about 18 tons of paint a day to make US dollars. The paper used to make US dollars is 25% linen and 75% cotton so that it won't turn yellow over time. Paper is made from synthetic fibres. To be unusable and torn, it must be folded 4000 times. According to the Fed, the life of a dollar bill denominated in dollars is about 22 months.

According to officials involved in issuing the new US\$100, unprinted stripes appear on the front of the banknotes due to the curvature of the printed sheet. According to the US Bureau, about 30% of all hundred-dollar bills that came out of the printer have such a defect. The cause of the failure during the printing process has not yet been established and has not eliminated. All new banknotes,

according to him, were sent to special storage, and specialists are urgently developing a system for mechanical sorting of banknotes with defects. According to his estimates, manual sorting of banknotes will take from 20 to 30 years, mechanical – about a year.

The cost of producing one new 100-dollar bill with a unique design is 12 cents – twice as much as banknotes of another denomination. Thus, more than \$130 million has already been spent printing 1.1 billion quarantined banknotes. The number of defective banknotes and the costs of their identification and subsequent destruction cannot yet be estimated.

Based on the problems identified above and considering the time and money spent on identifying and destroying defective banknotes, transporting and guarding, and counterfeiting banknotes. The solution to this problem can be the transition to the digital US dollar, which can fundamentally transform the financial system and change the private sector's role and responsibilities and the Central Bank.

3.2 Indebtedness of the US federal government to its creditors

The US government debt, or national debt, is money the US federal government owes to its creditors. Formally, the US government debt does not include the debt of individual states, corporations or individuals, even guaranteed by the state, or money owned by recipients of social assistance in the future. The US public debt is the main risk hanging over the global economy.

Inversion in the US debt market is intensifying; risk reduction continues against the backdrop of a signal from the Fed: the regulator will reduce its giant balance sheet with a maximum monthly rate of \$95 billion [35]. The landscape of the modern architecture of the global financial system is about to undergo massive

deconstruction as all of the unshakable principles that make it what it is today have been destroyed.

The way the US handled Russian reserves was a precedent; there are only political principles from now on. China will consistently get rid of US public debt. The proportion of countries holding US Treasuries will steadily fall, a trend that is inevitable in the current environment.

The world will no longer be the same as before. When the Fed bought up the entire government debt, it was possible to ignore non-residents. However, in April 2022, the Fed is forced to leave the market and sell government bonds to prevent record inflation somehow.

Figure 3.2 shows how the US government debt has changed from 1950 to 2019.

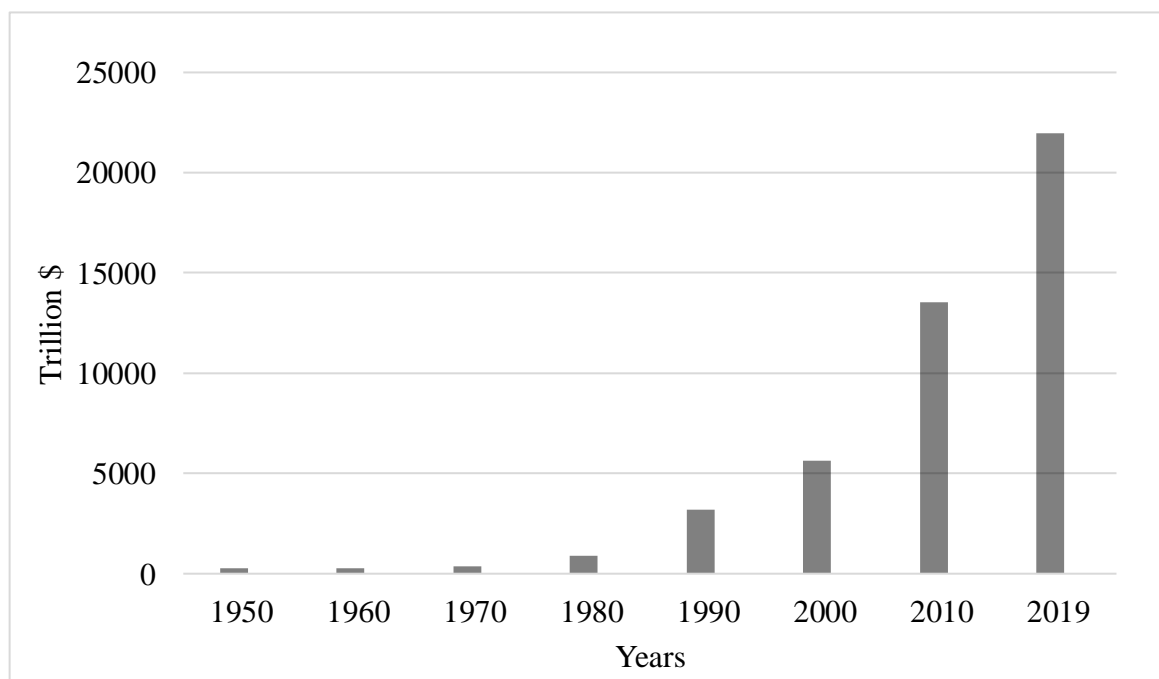


Fig. 3.2 – US public debt 1950–2019, \$ trillion [36]

In 2019, the US national debt exceeded \$22 trillion. In 2020, the US national debt was \$26 trillion [36]. In early February 2022, the US public debt exceeded \$30 trillion for the first time [37].

Every year the United States raises the public debt due to the inability to repay it. The US is working on a solution to the problem, but no effective solution

has been found. From the above information, a proposal for a solution to this problem may be to keep interest rates low – this is how governments seek to stimulate the economy, collect tax revenues and, ultimately, reduce public debt. Lower interest rates make it easier for individuals and businesses to obtain credit, spending that money on services and goods, resulting in job creation and taxes paid to the state treasury.

Based on the foregoing, we can conclude that the era of the international monetary system based on the dollar is undergoing significant changes, and its reform is inevitable, as are the budget reforms in the United States, the purpose of which is to control the boundless growth of the country's debts. Otherwise, the stability of the global financial system will be in jeopardy, as will the loss of confidence in the dollar and the US economy as a whole. A difficult compromise must now be found between addressing the root cause of the debt crisis and achieving overarching economic development goals.

3.3 The consequences of the ban on the use of dollars in Russia as a result of sanctions in the framework of the Russian–Ukrainian war

In his address dated March 11, 2022, US President D. Biden and new sanctions against the Russian Federation banned the supply of dollar banknotes to Russia. The consequences of this decision may be felt very soon [38].

In particular, the difficulty relates to the conduct of international trade since Russia cannot sell its goods for US dollars and earn currency for the budget, growth, and development of its producers. It results in them not being able to purchase the necessary export products, especially high-tech products, which are the economy's engine.

On the other hand, many export groups of Russian goods are essential both for the population and the energy security of several countries, such as African,

Latin American, and European. The lack of these goods could raise the danger, both in terms of starvation of African and other countries dependent on Russian food and selling their exports to the Russian market.

At the same time, despite all the sanctions aimed at Russia, as of May 4, 2022, according to the rating of world currencies according to Reuters, the Russian ruble has become the strongest currency in the world. In second place is the Brazilian real, and in third is the Mexican peso. Earlier it was reported that the ruble continues to strengthen its position on the Moscow Exchange. It is noted that the dollar exchange rate fell below 66 rubles for the first time since March 5, 2020. The US Federal Reserve raised the base rate by 50 points at once. The ruble strengthened at the beginning of trading on the Moscow Exchange on the morning of May 4, for the first time since mid-2020, the dollar fell below 69 rubles.

The decision of the Russian leadership to sell gas for rubles also played a role. In turn, the European Commission has prepared an energy supply plan that will be in effect in a sudden interruption in the supply of Russian gas. According to the document, countries with alternative sources of supplies will have to share gas with other EU states. It is worth noting that Russia has already suspended gas supplies to Poland and Bulgaria, which refused to buy energy in rubles. Moscow responds that it will do the same for other European clients.

Brussels warns that in an emergency, the measures will affect almost all EU partners since those with other sources of supplies, such as Spain, will have to share their gas with countries affected by the Russian cut [39].

It may mean that energy prices in Europe will become prohibitively expensive, which will affect their economy and the well-being of citizens. Already in May of this year, annual inflation in Europe reached 7.5%, thereby setting a historical record, and the growth in inflation was most affected by rising energy prices, they rose by 38% year on year [40].

The Minister of Economy of Germany, S. Schulze, said in an interview with Bild that the world is waiting for famine due to the crisis around Ukraine: "This was not the case during the Second World War." She explains this by the fact that sanctions are especially restrictions on the use of the US dollar and the euro by

Russia; because of this, their accounts are predicted to be frozen, which in turn will lead to a collapse in logistics. Trade, imports, and exports will critically affect underdeveloped countries [41]. For example, banana producers in Ecuador are protesting the suspension of their exports to Russia, as Ecuador received dollars for bananas [42].

What could be the consequences of the ban on the dollar and the euro for Russia if the ruble strengthened at the beginning of trading on the Moscow Exchange in the morning? On May 4, 2022, for the first time since mid-2020, the dollar fell below 69 rubles. It is intuitively clear that the more challenging the sanctions, the stronger the Russian currency should depreciate. Firstly, there are two main reasons: restrictions on the import of goods into Russia. Also, Western countries cannot quickly abandon Russian oil and gas, so Russian exports are unlikely to be seriously reduced soon, which means that foreign currency will return to Russia. But the sanctions have significantly reduced imports to Russia. The second reason is the strict currency control introduced by the Central Bank and the Ministry of Finance of Russia. The withdrawal of capital is limited, payments in favour of foreign counterparties in foreign currency are limited, and exporters are required to sell 80% of foreign exchange earnings [43].

This situation entails negative processes in Russia, such as reductions in technological imports. Previously, Russia bought all this for US dollars. The US dollars are not used, and the exchange rate is falling; therefore, when the restrictions are lifted, the prices of goods will rise sharply.

Summing up, the return of the ruble exchange rate to the values of 2 years ago is like false calmness. It seems that the economic situation in Russia is normalizing, but this is not entirely true. The high exchange rate of the US dollar is a consequence of sanctions and tight foreign exchange controls. Chinese Foreign Ministry spokesman Zhao Lijian quoted the former Secretary of State of the United States of America, Henry Kissinger: “Being an enemy of America can be dangerous but being a friend of America is fatal” [44]. It would seem just a phrase, but one of the genuine options for the consequences of the ban on the US dollar and the euro in Russia is the transition of India, China, and OPEC countries to

settlements among themselves in national currencies. First, to get rid of the long-standing dollar. Secondly, given the size of its economy, China may introduce the yuan as a replacement for the dollar in the global economy, and the above countries are likely to accept this option. The governments of Latin America, the Middle East and Africa will also follow them in a chain reaction because the export of raw materials and goods, the productivity of the above countries taken together is relatively high and self-sufficient.

Yes, such a process does not seem to happen immediately and painlessly. However, the process has already been launched, and the events that are now taking place in the world will radically change the existing geopolitical and economic alignments in the world. And united, given the presence in Russia of vast reserves of grain, energy, cheap labour and technology from China and India, these countries can change the influence of the dollar on the world economy.

It is easy to guess that the US dollar may suffer a sad fate soon, given that the main thing on the planet is energy, food, water, cheap labour, and technology. And those countries that have this can claim a significant role in the world political and economic arena when making correct and balanced decisions.

Summing up, analyzing the roles and positions of the world's leading economies, it is difficult to imagine the catastrophic impact of the dollar on Russia and its allies in the foreseeable future. On the contrary, this is the result of the ban on the US dollar and the euro in Russia. The freezing of its assets in foreign accounts may have a retroactive effect and weaken the dollar's role in the global economy. At the same time, the dollar may lose its reputation as a stable and reliable payment world currency, giving way to the Chinese yuan and the system of settlements between countries in national currencies.

The solution to the problem is to end the war in Ukraine and restore friendly economic ties. Also, a meeting of representatives of the leaders of regional world powers such as China, the USA, Russia and India at a round table to establish agreements, considering the equal interests of each other in world processes.

CONCLUSIONS

In the bachelor's work, changes in the global positions of the dollar were studied, as well as its further prospects in the world monetary and financial system. It is revealed that the role of the United States in world production, trade and GDP naturally decreases as economic growth in developing countries – primarily in China, India and other Asian countries – exceeds the average growth rates of developed countries. At the same time, today, the US dollar dominates in all spheres of the world economy. The dollar is the main currency in international trade in goods and services and in the global financial system – when borrowing in loans or issuing bonds in the banking and real sectors. From the states' point of view, the dollar is the main reserve currency and the anchor currency for full and partial fixing of exchange rates.

On the one hand, the balance with the dollar's central role is very stable in the short and medium-term. On the other hand, the diminishing role of the US in world production and trade is likely to lead to a transition to a new equilibrium in the long run, where other global and regional currencies, such as the euro and the yuan, will play a more significant role. But none of these currencies can yet become a potential replacement for the dollar as a safe asset currency, which is based on the reputation of the institutions that support it – an independent central bank and judiciary, as well as a political system of checks and balances that guarantees, in particular, fiscal discipline government.

Analyzing the position of the US dollar in the global economy, it is worth paying attention to the larger volumes of US government debt, which entails significant changes in the international monetary system. Suppose the country's boundless debt growth is not brought under control. In that case, this will lead to instability in the global financial system and a loss of confidence in the dollar and the US economy.

Against the backdrop of the Russian-Ukrainian war, studying the influence of the dollar on Russia and its allies is relevant. Likely, the ban on the US dollar as

part of the economic sanctions imposed on the Russian Federation may be retroactive to the US dollar and weaken its role in the global economy. At the same time, the dollar may also lose its reputation as a stable and reliable payment world currency, giving way to the Chinese yuan and the system of settlements between countries in national currencies.

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APPENDICES

APPENDIX A

SUMMARY

Brokhova Zh.V. The US Dollar: Challenges for Dominance in the World Economy. – Qualifying bachelor's thesis. Sumy State University, Sumy, 2022.

The bachelor's thesis is devoted to studying changes in the global position of the dollar and further prospects for its role in the global monetary and financial system. The historical aspects of the formation of the US dollar as a world currency are analyzed. The peculiarities of the monetary policy of the Federal Reserve are considered. Changes in the scale of use of the US dollar in international monetary and financial markets, as well as features, scale and consequences of the use of the US dollar in the monetary systems of individual countries, are studied. The prospects of maintaining the position of the world's leading currency against the US dollar are assessed. The object of the study is the international monetary and financial system in the context of globalization. The subject of the study is the current position of the dollar in the global monetary and financial system. It has been proven that the role of the US dollar in the world economic system has never been stronger: it dominates in all its spheres - both in the private and public sectors. The dollar remains the main currency in international trade in goods and services and the international financial system.

Key words: MONETARY SYSTEM, RESERVE CURRENCY, US DOLLAR, WORLD CRISIS, FINANCIAL MARKETS.

АНОТАЦІЯ

Брѡхова Ж.В. Долар США: виклики для домінування у світовій економіці. – Кваліфікаційна бакалаврська робота. Сумський державний університет, Суми, 2022.

Кваліфікаційна бакалаврська робота присвячена дослідженню змін глобальних позицій долара та подальших перспектив його ролі у світовій валютно-фінансовій системі. Проаналізовано історичні аспекти формування долара США як світової валюти, а також розглянуто особливості монетарної політики Федеральної резервної системи. Досліджено зміни масштабів використання долара США на міжнародних валютно-фінансових ринках, а також особливості, масштаби та наслідки використання долара США у грошових системах окремих країн. Оцінено перспективи збереження позиції провідної світової валюти за долларом США. Об'єктом дослідження є міжнародна валютно-фінансова система в умовах глобалізації. Предметом дослідження є поточне положення долара у світовій валютно-фінансовій системі. Доведено, що роль долара США у світовій економічній системі ще ніколи не була сильнішою: він домінує у всіх її сферах – як у приватному, так і державному секторах. Долар залишається основною валютою у міжнародній торгівлі товарами та послугами та у міжнародній фінансовій системі.

Ключові слова: ГРОШОВА СИСТЕМА, РЕЗЕРВНА ВАЛЮТА, ДОЛАР США, СВІТОВА КРИЗА, ФІНАНСОВІ РИНКИ.