

Marek Maciejewski  
Krakow University of Economics  
<https://orcid.org/0000-0003-1343-3764>  
<https://doi.org/10.35765/slowniki.434en>

# The international monetary system

## Summary

**DEFINITION OF THE TERM:** The international monetary system is the system of rules and institutions that govern the use of money and the execution of payments in global transactions.

**HISTORICAL ANALYSIS OF THE TERM:** The first comprehensive international monetary system was the gold coin standard, which evolved over time. After World War 2, the Bretton Woods system introduced the gold exchange standard, which has since transitioned into today's multi-currency system.

**DISCUSSION OF THE TERM:** In the contemporary international monetary framework, countries have the autonomy to select their preferred exchange rate policy. This choice is primarily driven by their need to achieve their domestic economic objectives. As a result, exchange rate fluctuations are common, and maintaining foreign exchange reserves becomes necessary, with the US dollar playing a central role in these reserves.

**SYSTEMATIC REFLECTION WITH CONCLUSIONS AND RECOMMENDATIONS:** The potential erosion of confidence in the US dollar poses a significant risk to the stability of the current international monetary system. This concern has led to discussions about alternative forms of international currency reminiscent of the stable arrangements advocated in previous monetary systems.

**Keywords:** Bretton Woods, dollar, exchange rate, International Monetary Fund, international monetary system



## Definition of the term

The international monetary system is a framework of rules and institutions that governs the use of money and the execution of payments in global economic relations (Zabielski, 2002). This system encompasses both formal norms from multilateral agreements and customary practices that have evolved from the practical activities of international trade participants. National and international institutions play a crucial role in this system by implementing these rules, ensuring compliance and adapting them to new challenges and conditions in international financial relations.

The primary objective of the international monetary system is to facilitate the exchange of goods, services, and capital flows while maintaining external stability for the economies involved (Bogołębska, 2020). This need arises from the existence of distinct monetary and currency systems across different countries and regions. To achieve this goal, it is essential to ensure the freedom of international payments, establish methods for balancing the balance of payments, and define principles of currency convertibility. The international monetary system provides the foundation for creating one or more international currencies. It can be based on fixed exchange rates among member countries' currencies or determined by market forces such as supply and demand in the foreign exchange market. The fixed exchange rate approach requires monetary cooperation among participating countries, including the adoption of a common measure of value. This common measure serves as both a means of payment for international transactions and a reference point for determining exchange rates. Historically, gold fulfilled this role in international monetary systems. Although gold remained a measure of value over time, the currency of the dominant country in the system began to serve as the international means of payment. In contrast, the floating exchange rate approach does not require such currency cooperation. Instead, currencies from the world's strongest nations or integrated economic blocs compete for the roles of value measure and international means of payment (Jurek, 2011).

## Historical analysis of the term

No international monetary system encompassing a wide range of countries existed before the 19<sup>th</sup> century. Consequently, there was no unified monetary standard to facilitate international transactions. No attempts were made to internationally coordinate the determination of the value of national monetary units, and each country independently determined the value of its currency. Monetary systems were typically based on either gold or silver, which served as legal tender and a measure of value. By the early 19<sup>th</sup> century, three distinct monetary systems had emerged: silver monometallism, gold monometallism, and bimetallism. In countries with silver monometallism, silver was the bullion that backed the money issued by central banks. In gold monometallism, gold served as the foundation of the monetary system. In countries where bimetallism was implemented, the ratio of silver to gold was legally defined, with both metals serving as equal collateral for the currency in circulation (Jeziński & Leszczyńska, 2003).

The first fully developed international monetary system was the gold coin standard, which emerged not from an international agreement but from the convergence of banking and trade practices. Its implementation and operation were formalised through legal statutes enacted by various governments at different times (Bilski, 2006). The United Kingdom pioneered the gold coin standard between 1816 and 1821, establishing legally guaranteed convertibility of banknotes into gold. Following the UK's lead, other countries, such as Germany in 1871, France in 1874, and the United States in 1879, adopted similar laws defining gold parity and ensuring the convertibility of banknotes into gold (Twarowska-Mól, 2021).

Under the gold coin standard, each nation's currency had a fixed gold parity, meaning its value was defined by a specific weight of pure gold. Banknotes served as a substitute for gold, and banks were obligated to exchange these banknotes for gold at the established parity. Consequently, central banks were required to maintain gold reserves and regulate the money supply in established proportion to their gold holdings.

The relationships between different national currencies were determined by comparing the gold parities of their respective monetary units. This system for exchange rates was known as the par values

or the permanently fixed parity exchange rate system (Jurek, 2008). Market exchange rates could fluctuate within a narrow band of up to 1% above or below parity, bounded by gold points, which represented the costs associated with transporting gold for international payments. The free movement of gold between countries ensured that exchange rates remained within this range as trade imbalances resulted not in an increase in the value of the surplus country's currency but in more profitable (including transport) gold payments.

Gold flows between countries naturally led to external equilibrium through price adjustments, supported by capital movements. This adjustment process occurred automatically, with domestic monetary policy playing a limited role. The mechanism operated symmetrically in both debtor and creditor countries (Bogołębska, 2013). When a country faced a balance of payments deficit, its gold reserves would decline, prompting an increase in the discount rate and a reduction in the domestic money supply, which was directly linked to the size of the gold reserves. This triggered a two-fold deficit reduction process. First, higher interest rates attracted foreign capital inflows. Second, the contraction of the domestic money supply led to a decrease in income, demand, and prices. Lower domestic prices made exports more competitive, while reduced demand curbed imports. Conversely, a surplus in the balance of payments led to an increase in gold reserves, an increased domestic money supply, lower interest rates, and higher demand and prices. Consequently, this led to capital outflows, increased imports, and reduced exports.

Over time, gold was gradually withdrawn from circulation and replaced by currencies backed by gold, a process known as the economisation of gold. This shift was driven by both technical and economic factors, particularly the greater ease and lower cost of using currencies instead of physical bullion. While these currencies took on the role of a medium of exchange, gold continued to serve as the primary reserve asset (Zabielski, 2002). As the UK was the world's leading financial centre at the time, pound sterling assumed a dominant role in the gold coin standard, effectively functioning as a global currency used in a significant portion of international trade and as part of foreign exchange reserves.

The gold coin standard effectively stabilised countries' external balances, and fixed exchange rates promoted trade and the liquidity of international settlements. However, this came with the significant cost

of tying domestic economic policies to external balance requirements. The need to maintain fixed exchange rates limited the scope for state intervention in the economy, and periodic deflation hindered economic growth and exacerbated unemployment.

The outbreak of World War 1 in 1914 marked the end of the gold coin standard, as most countries (with the exception of the United States) suspended the convertibility of banknotes into gold. The financial demands of the war were incompatible with the principle of linking money issuance to gold reserves. Additionally, a gradual ban on gold exports was implemented.

After the war, countries operated under a floating exchange rate system characterised by trade protectionism and significant exchange rate volatility, driven by varying and often high levels of inflation. The resulting instability in the foreign exchange market underscored the need for a reform of the currency system. However, restoring full convertibility of currencies into gold proved impossible due to insufficient gold reserves, particularly in European countries. This shortage was exacerbated by low gold production and the substantial outflow of gold to the United States, primarily to pay for imports.

At the International Economic Conference in Genoa in 1922, two limited gold-based monetary systems were established: the gold bullion standard and the gold exchange standard. These standards were modifications of the classical gold coin standard. Fixed exchange rates pegged to gold were reinstated, gold was allowed to circulate freely in international trade, and reserves were held primarily in gold, with pound sterling and the US dollar serving as international means of payment. However, these systems did not guarantee the free convertibility of currencies into gold. Under the gold bullion standard, currencies could only be exchanged for large gold bars used for international payments. This system was adopted by the UK, France, Belgium, Italy, and Czechoslovakia (Twarowska-Mól, 2021). Other countries, lacking sufficient gold reserves to guarantee their currencies' convertibility into gold, adopted the gold exchange standard. In this system, domestic currencies were convertible into foreign currencies that were convertible into gold. Some reserves were also held in these currencies.

During the Great Depression (1929–1933), countries began to prioritise national economic recovery over maintaining fixed exchange rates.

This shift led to competitive devaluations, where nations abandoned fixed currency parities, which consequently resulted in a departure from the gold coin standard. The suspension of sterling's gold convertibility in 1931, its subsequent devaluation, and the UK's adoption of a floating exchange rate system marked the beginning of the gold standard's disintegration.

The disarray in the foreign exchange markets during the 1930s caused severe international payment difficulties and a collapse in global trade. This crisis prompted efforts by countries to stabilise exchange rate fluctuations. In 1936, the United States, the UK, and France signed the Tripartite Agreement, pledging to avoid unilateral and uncoordinated currency devaluations. Although limited in scope, this agreement laid the groundwork for moving away from gold-pegged exchange rates towards dollar convertibility (Jurek, 2011). However, the onset of World War 2 interrupted further progress in this cooperation.

During the Second World War, efforts were already underway to reorganise global monetary relations and establish a new international monetary system. The International Conference at Bretton Woods in July 1944 was pivotal in shaping the principles of post-war monetary relations. The conference led to the creation of the International Monetary Fund (IMF), whose statutes outlined the responsibilities of member countries regarding exchange rate policies. This marked the Bretton Woods system as the first monetary framework created by a formal international agreement.

Under the Bretton Woods system, the US dollar was the only currency directly convertible into gold, with the official gold price fixed at USD 35 per ounce, a rate set unilaterally by the US government. The currencies of other IMF member countries were pegged to the US dollar or gold at fixed parity rates. However, these currencies were not directly convertible into gold; instead, they could only be exchanged for other member currencies at fixed rates, with allowable fluctuations of up to 1% above or below parity. The Federal Reserve was obligated to convert dollars into gold upon request by the central banks of other member countries, thereby establishing a system of fixed exchange rates. Unlike the gold coin standard, the Bretton Woods system allowed for adjustments in currency parities through devaluation or revaluation of a country's currency, offering a mechanism to balance domestic economic development needs

with external equilibrium. However, such changes were only permissible in cases of persistent balance of payments deficits, not for short-term competitive advantages (Lutkowski, 2007). Changes in parity without IMF approval were limited to a 10% deviation from the established rate. For more significant imbalances, IMF consultation was required. Additionally, under the Bretton Woods rules, member countries could finance balance of payments deficits through IMF loans.

During the Bretton Woods era, central banks held reserves primarily in gold and US dollar, with the latter increasingly viewed as a gold equivalent within the system. As the dollar became central to the exchange rate system, it assumed multiple roles: as a reserve currency, a transaction currency, an intervention currency, and a measure of value. Consequently, demand for the dollar surged, and its share in global reserves grew significantly. The expansion of international trade further heightened the world's demand for reserves. However, the limited supply of gold, coupled with its industrial uses, meant that meeting this growing demand with gold alone was impractical because, to provide sufficient reserves in the form of dollars, the United States would have had to continuously run a balance of payments deficit (Bağ, 2022). This situation led to concerns about a shortage of international liquidity, prompting the introduction of Special Drawing Rights (SDR) by the IMF. SDR was allocated to member countries and became a new reserve asset alongside gold and dollars, representing a significant modification of the Bretton Woods system.

The stability of the Bretton Woods system hinged on confidence in the dollar and its convertibility into gold. However, persistent US balance of payments deficits and the growing global surplus of the dollar undermined the dollar-gold link. Maintaining this relationship required US interventions, including selling gold on the London market and exchanging dollars for gold upon request from countries holding dollar reserves. Faced with the prospect of depleting its gold reserves, the United States suspended the dollar's convertibility into gold on August 15, 1971. This led most countries to abandon fixed exchange rates against the dollar, opting instead for floating rates, which destabilised the foreign exchange market. In December 1971, an attempt was made to restore fixed exchange rates through the Smithsonian Agreement in Washington. This agreement re-established central rates against the dollar and expanded the official market fluctuation margin from  $\pm 1\%$  to  $\pm 2.25\%$ . Additionally, the official gold price was raised

from \$35 to \$38 per ounce (Matkowska, 2006). However, this solution was short-lived. Rising inflation and speculative pressure on both sterling and the dollar forced the UK to float its exchange rate in mid-1972. The US followed suit, devaluing the dollar to \$42.2 per ounce of gold on 12 February, 1973. Continued turmoil in foreign exchange markets, compounded by the Middle East war and the ensuing oil crisis, led the US, UK, Japan, Italy, Canada, and Switzerland to permanently abandon fixed exchange rates in 1973. This move, coupled with the abolition of dollar convertibility into gold, marked the end of the Bretton Woods system and the adoption of floating exchange rates.

Since then, the IMF has been actively engaged in reforming the international monetary system. A significant milestone in this effort was the agreement reached in January 1976 in Kingston, Jamaica, with the corresponding amendments to the IMF Agreement taking effect on April 1, 1978. These reforms marked a departure from the gold standard, prohibiting the use of gold parity for national currencies and the setting of official gold prices. As a result, currencies were no longer convertible into gold but only into other currencies. The reformed system became entirely based on fiat money, which is not backed by gold, granting central banks the unrestricted ability to issue currency. Under the new framework, member countries were permitted to peg their currencies to SDR or to the currencies of other countries. The principle of fixed exchange rates was abolished, allowing member countries the freedom to choose their exchange rate regimes. However, they were required to report their chosen exchange rate policies to the IMF (Jurek, 2011). Gold lost its central role in the reformed international monetary system and was relegated to the status of an official reserve asset.

Although SDR was initially envisioned as an international currency and a key component of foreign exchange reserves, it has remained a marginal monetary unit and functions primarily as an accounting tool used to settle payment obligations between the IMF member countries and their transactions with the IMF. In practice, highly developed countries have continued to favour their own national currencies for international monetary roles (Matkowska, 2006). Consequently, the US dollar, supported by the United States' dominant position in the global economy, became the primary global currency in the reformed international monetary system.

The revised IMF Statute also introduced the concept of freely usable currencies. These are currencies that are widely used for international transactions and are actively traded in major foreign exchange markets. In 1978, this group included the US dollar, Japanese yen, pound sterling, French franc, and German mark. Since 1981, these freely usable currencies have comprised the SDR basket. Following the introduction of the euro in 1999, it replaced the German mark and French franc in the basket, and in 2016 the Chinese yuan also became a freely usable currency.

The international monetary system comprises various regional and national currency systems. A notable example of a regional system was the European Monetary System, established in 1979, which was later succeeded by the Eurozone in 1999.

Reformed in 1978, the international monetary system is often described as a multi-currency system, meaning it incorporates different types of international money (Zabielski, 2002). This system was designed to provide multiple sources of international liquidity, thereby loosening the previous dependence on a single currency's balance of payments deficit, which was a feature of the Bretton Woods system. A key objective of the modern monetary system is to offer countries greater flexibility and autonomy in choosing measures for restoring external balance (Matkowska, 2006).

However, despite the system's intended multiplicity of international currencies, in practice only a few currencies are widely accepted for international transactions, payments, and as stores of value. Among these, the US dollar remains dominant in all functions of international money (Twarowska-Mól, 2021). This dominance contributes to a scarcity of international liquidity and global payment imbalances while placing the US economy in a privileged position and allowing it to sustain deficits as long as global demand for the dollar continues. Additionally, the lack of effective control over exchange rate policies allows countries to use these policies to bolster their national economies' competitiveness, further exacerbating global imbalances.

The currency crises of the 1990s highlighted the need for reforms in the international monetary system. These reforms primarily involved providing IMF credit lines to crisis-affected countries, contingent upon their development and implementation of appropriate economic recovery programmes.

## Discussion of the term

The modern international monetary system is often referred to as the Kingston system or multi-currency system. One of its core principles is that IMF member countries have the freedom to choose their exchange rate mechanisms. These mechanisms define how exchange rates are determined and how currency interventions are implemented to stabilise rates. Since 1975, the IMF has annually published a classification of exchange rate regimes declared by its member countries. Starting in 1976, the classification system categorised regimes into four main types: pegged exchange rate to a single currency, pegged exchange rate to a basket of currencies, soft peg exchange rate (modified according to selected economic indicators), and currency snake (several currencies are pegged to each other within a permissible fluctuation band). Modifications to this classification were introduced in 1982 and 1999, with the latest update in 2009 expanding the classification to ten categories (Tymoczko, 2013). These categories can be grouped into four broad types: hard pegs, soft pegs, floating rates, and residual rates.

Hard pegs do not allow for exchange rate fluctuations and include:

- exchange arrangement with no separate legal tender, which involves adopting another country's currency as the sole legal tender. When this adopted currency is the dollar – historically the oldest and most widely used currency – this system is known as dollarisation. In such an arrangement, the monetary authorities forgo control over national monetary policy, leaving the economic conditions of the country to be shaped by the monetary policy of the country issuing the adopted currency.
- currency board arrangement, which involves a commitment to exchange the domestic currency for a specific foreign currency at a fixed rate. Money issuance is done solely through the exchange of foreign currency for domestic currency, and the domestic currency is fully backed by foreign assets. In this arrangement, the central bank's traditional roles are limited, and it has minimal flexibility in conducting monetary policy.

Indirect solutions in shaping exchange rate rules include various types of soft pegs, which permit a controlled range of fluctuations and adjustments in exchange rates. These include:

- conventional pegged arrangement, which entails fixing a country's currency to another currency or a basket of currencies at a set exchange rate. The monetary authorities must maintain this rate through both direct (buying or selling foreign currency) and indirect (adjusting interest rates) interventions for at least six months. The exchange rate is allowed to fluctuate within narrow limits, typically less than  $\pm 1\%$  around the central rate, or the market rate must remain within a margin of 2% of the central rate.
- stabilised arrangement, in which currency is pegged to a single currency or a basket of currencies with a fixed rate, but with a permitted fluctuation band of  $\pm 2\%$  for at least six months.
- crawling peg, which involves setting a fixed exchange rate similarly to a conventional pegged arrangement. The rate is then adjusted gradually according to a predetermined schedule, often based on inflation differentials with major trading partners.
- crawl-like arrangement, which entails maintaining the exchange rate within a narrow band of  $\pm 2\%$  relative to a trend for six months or more. It involves a continuous, monotonic change in the exchange rate, either appreciating or depreciating by at least 1% per year.
- pegged exchange rate within horizontal bands, which is a system that sets a fixed rate similar to the conventional pegged arrangement but allows the currency to fluctuate within more widely defined margins of more than  $\pm 1\%$  around the fixed central rate. Interventions are required if the market rate approaches either limit of the fluctuation band.

In a floating exchange rate system, a currency's value is determined by market supply and demand, and monetary authorities do not aim to stabilise the currency's value. This category includes:

- floating exchange rate, which is primarily influenced by market forces. However, authorities may conduct direct and indirect foreign exchange interventions to smooth out fluctuations and prevent excessive volatility.
- free floating exchange rate, which is determined exclusively by market factors. Interventions are rare and only permitted in exceptional circumstances to correct significant market distortions. When interventions do occur, they are limited to a maximum

of three instances within a six-month period, and each must last no longer than three business days.

Exchange rate regimes that do not fit neatly into these categories are classified by the IMF as other managed arrangements. These often involve frequent policy adjustments or a combination of elements of various regimes.

Countries report their declared exchange rate regimes (i.e., de jure regimes) to the IMF annually. However, the actual exchange rate practices (i.e., de facto regimes) may differ, often due to ad hoc adjustments in response to current economic conditions. These deviations can sometimes exceed the boundaries of the declared regimes. Table 1 provides a summary of the share of countries which use de facto exchange rate arrangements according to the classification for the period 2010–2022.

Table 1. De facto exchange rate arrangements for 2010–2022 (in %)

Exchange rate Regime	2010	2014	2015	2016	2017	2018	2019	2020	2021	2022
Hard pegs	13.2	13.1	12.6	13.0	12.5	12.5	12.5	12.5	13.0	13.4
Soft pegs	39.7	43.5	47.1	39.6	42.2	46.4	46.4	46.9	47.7	46.9
Floating	36.0	34.0	35.1	37.0	35.9	34.4	34.4	32.8	33.2	34.0
Residual	11.1	9.4	5.2	10.4	9.4	6.7	6.7	7.8	6.1	5.7

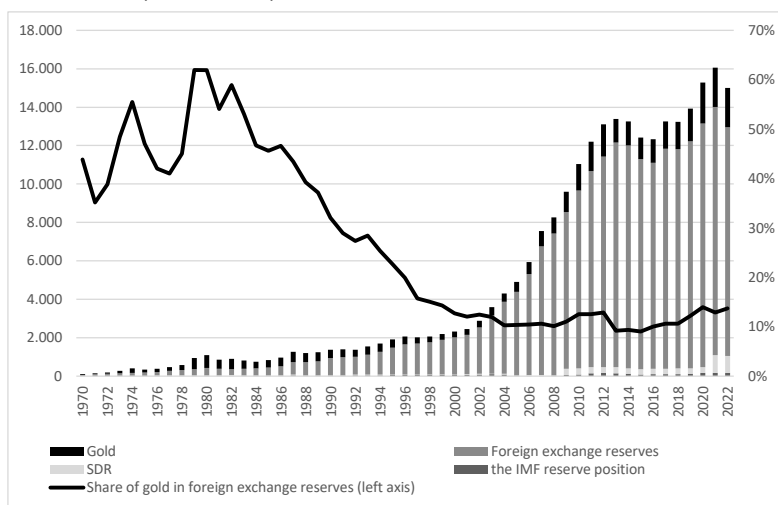
Source: Own compilation based on the IMF.

The table reveals that, as of 2010, the predominant exchange rate regimes are those from the soft peg group, with the conventional pegged arrangement being the most common. In 2022, this group included 40 countries. Among these, 18 countries, including the West African Economic and Monetary Union (WAEMU) and the Economic and Monetary Community of Central Africa (CEMAC), had pegged their currencies to the euro, while 14 countries had pegged their currencies to the US dollar.

Floating exchange rate systems have been adopted by nearly one-third of all countries. In 2022, 31 countries, including the euro area nations and Poland, used a free floating arrangement; 35 countries, including the Czech Republic, Hungary, and Turkey, employed a floating arrangement.

In recent years, hard pegs systems were adopted by 12–14% of countries. In 2022, 14 countries operated under an exchange arrangement with no separate legal tender, while 12 countries used a currency board arrangement. Among these hard pegs systems, 15 countries pegged their currencies to the US dollar, and six countries pegged theirs to the euro. Overall, in 2022, the US dollar served as an anchor currency for 37 countries, while the euro served for 26 countries.

Figure 1. The structure of global foreign exchange reserves in the period 1970–2022 (US\$ billion)



Source: own compilation based on the IMF.

The evolution of exchange rate regimes since the collapse of the Bretton Woods system has been accompanied by changes in the structure of global foreign exchange reserves. As illustrated in Figure 1, gold constituted over 40% of global foreign exchange reserves until the late 1980s. Alongside gold, foreign exchange reserves were categorised according to IMF guidelines into foreign exchange assets (primarily securities, deposits, and cash), SDR, and the reserve position in the IMF, which is the difference between a country's contribution to the IMF and the amount of its own currency held by the IMF. Since the 1980s, the share of gold in global foreign exchange reserves has steadily declined due to the rapid expansion of global reserves and a growing preference for holding convertible currencies as a safeguard against sudden capital outflows and

currency devaluations. Central banks increasingly favoured convertible currencies over gold and sold their gold reserves to enhance returns on foreign exchange reserves (Skopiec, 2022). Consequently, gold's share of global reserves dropped to approximately 10% by 2004.

However, the 2007–2009 financial crisis, which eroded confidence in government debt securities, prompted a policy shift among central banks. Despite the continued growth in global reserve assets, the proportion of gold in reserves began to stabilise and even increase, reaching 13.7% in 2022. In recent years, many central banks have actively increased their gold holdings. Notably, between 2019 and 2023, the central banks of China (373.9 tonnes), Turkey (269 tonnes), and Poland (230.1 tonnes) made substantial gold purchases.

Table 2. The structure of global foreign exchange reserves in the period 1999–2023

Currency	1999	2001	2003	2005	2007	2009	2011	2013	2015	2017	2019	2021	2023*
USD	71.0	71.5	65.4	66.5	63.9	62.1	62.7	61.3	65.7	62.7	60.7	58.8	59.2
EUR	17.9	19.2	25.0	23.9	26.1	27.7	24.4	24.2	19.1	20.2	20.6	20.6	19.6
CNY	–	–	–	–	–	–	–	–	–	1.2	1.9	2.8	2.4
JPY	6.4	5.0	4.4	4.0	3.2	2.9	3.6	3.8	3.8	4.9	5.9	5.6	5.5
GBP	2.9	2.7	2.9	3.7	4.8	4.3	3.8	4.0	4.7	4.5	4.6	4.8	4.8
AUD	–	–	–	–	–	–	–	1.8	1.8	1.8	1.7	1.8	2.0
CAD	–	–	–	–	–	–	–	1.8	1.8	2.0	1.9	2.4	2.5
CHF	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.3	0.3	0.2	0.1	0.2	0.2
Other	1.6	1.3	2.0	1.7	1.8	2.9	5.3	2.8	2.8	2.4	2.5	3.0	3.9

\*Third quarter of 2023.

Source: own compilation based on the IMF.

Global reserve assets are predominantly composed of foreign exchange reserves, which include securities, deposits, and cash denominated in foreign currencies. In 2022, these reserves constituted nearly 80% of the total foreign exchange reserves. As detailed in Table 2, the US dollar remains the leading currency within this structure, although its share decreased from 71% in 1999 to 59.2% in 2023.

The US dollar's significant role is attributed to its liquidity, extensive use as an anchor currency, and its prominence in international debt issuance, lending, deposits, and foreign exchange trading.

However, the dollar's share of foreign exchange reserves has been shrinking, driven by both political and economic factors. On the one hand, currency interventions involving the dollar from reserve holdings have contributed to this decline. On the other hand, there is a concerted effort among various integration groupings, such as the Association of Southeast Asian Nations (ASEAN) and the BRICS countries, to reduce reliance on the dollar in favour of promoting local currencies for bilateral trade settlements.

The remaining components of global foreign exchange reserves – the IMF reserve position and SDR – constitute a minor portion of the total; the IMF reserve position has remained below 1.2% of the share of global reserves since 2005. However, the largest-ever SDR allocation in 2021, amounting to SDR 456.5 billion, increased SDR's share of global reserves to nearly 6%.

## Systematic reflection with conclusions and recommendations

Economic development and international cooperation in trade and finance necessitate adopting and adhering to rules that govern interactions between the currencies of participating countries. Such regulations facilitate valuation and enable seamless international payments. Historical practices, along with formal solutions and institutions, have established a framework for international monetary cooperation. The gold coin standard was the first fully established international monetary system, though it evolved over time. Following World War 2, the Bretton Woods system introduced the gold exchange standard, which was eventually succeeded by the current multi-currency system.

The collapse of the Bretton Woods system marked the end of a uniform exchange rate system for IMF member countries. Nations gained the autonomy to choose their own exchange rate policies, subject to consultation with the IMF. These individual choices impact the functioning and stability of the entire international monetary system. Each country's exchange rate policy is primarily shaped by its domestic economic goals, reflecting a shift away from the gold coin standard model, where domestic policies were largely influenced by external economic balance.

Currently, countries employ a range of exchange rate arrangements: some use foreign currencies through dollarisation, others maintain pegged or floating exchange rates, and the majority adopt intermediate solutions that allow for more flexible adjustments to meet domestic economic needs.

Due to the flexibility and lack of strict rules in the international monetary system, the currently adopted solutions lead to instability, which manifests as exchange rate volatility and balance of payments imbalances. This results in an increased need to maintain high levels of foreign exchange reserves, the main component of which, despite the system's assumption of currency diversification, remains the U.S. dollar. However, its value, once decoupled from gold, relies solely on confidence in the stability and strength of the US economy. The dollar's role as the world's primary currency enables the US to meet its foreign obligations through currency issuance, which can lead to increased US debt and potential erosion of confidence in the dollar.

A sudden shift away from the dollar as the world's primary currency could lead to the collapse of the international monetary system. Therefore, reforms to the system and the search for an alternative to the dollar are being advocated.

One proposed solution involves fully realising the potential of a multi-currency system by elevating other major currencies, such as the euro and the Chinese yuan, to comparable prominence, which would increase the substitutability of reserve assets. Achieving this would require significant reforms in the Chinese financial system and a market-driven liberalisation of the yuan.

Another proposal is to elevate SDR to the status of international money and the primary component of foreign exchange reserves – a concept initially suggested during the design of the Bretton Woods system. Under this idea, the value of SDR could be anchored either to gold (as originally envisioned) or to a basket of currencies (as currently practised). Gradually increasing the issuance of SDR could potentially replace national currencies in countries' reserve holdings.

Another suggestion is to reinstate a gold standard, effectively reviving the gold coin currency system. Central banks hold substantial gold reserves that could serve as the foundation for such a system.

However, all these proposals largely seek to reinstate aspects of previous monetary systems rather than introduce entirely new solutions. Historical market conditions have demonstrated the limitations of these previous systems, making their reimplementing challenging. Reforming the international monetary system would also require global consensus, which appears difficult to achieve in an increasingly economically and politically polarised world.

## REFERENCES

- Bąk, H. (2022). Funkcjonowanie mechanizmu walutowego z Bretton Woods w wybranych krajach europejskich. In: R. Bartkowiak, J. Ostaszewski, Z. Polański (ed.), *System z Bretton Woods i jego dziedzictwo. Od pieniądza złotego do cyfrowego* (pp. 55–87). Warszawa: Oficyna Wydawnicza SGH.
- Bilski, J. (2006). *Międzynarodowy system walutowy*. Warszawa: Polskie Wydawnictwo Ekonomiczne.
- Bogołębska, J. (2013). *Nierównowagi globalne a stabilność międzynarodowego systemu walutowego. Analiza na przykładzie akumulacji rezerw walutowych*. Łódź: Wydawnictwo Uniwersytetu Łódzkiego.
- Bogołębska, J. (2020). *Stabilność międzynarodowego systemu walutowego. Problemy i kierunki reformy*. Łódź: Wydawnictwo Uniwersytetu Łódzkiego.
- Jeziński, A., & Leszczyńska, C. (2003). *Historia gospodarcza Polski*. Warszawa: Key Text.
- Jurek, M. (2008). System waluty złotej jako klasyczny system pieniądza towarowego. In: Z. Knakiewicz (ed.), *Współczesny pieniądz w teorii i praktyce* (pp. 197–216). Poznań: Akademia Ekonomiczna w Poznaniu.
- Jurek, M. (2011). *Międzynarodowy system walutowy i systemy kursowe w warunkach integracji finansowej*. Poznań: Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu.
- Matkowska, M. (2006). Międzynarodowe systemy walutowe. In: J. Dudziński, H. Nakonieczna-Kisiel (ed.), *Międzynarodowe stosunki finansowe* (pp. 95–116). Szczecin: Wydawnictwo Zachodniopomorskiej Szkoły Biznesu w Szczecinie.
- Lutkowski, K. (2007). *Finanse międzynarodowe. Zarys problematyki*. Warszawa: Wydawnictwo Naukowe PWN.

- Skopiec, D.A. (2022). Rola złota we współczesnym międzynarodowym systemie walutowym i perspektywy jej zwiększenia. In: R. Bartkowiak, J. Ostaszewski, Z. Polański (ed.), *System z Bretton Woods i jego dziedzictwo. Od pieniądza złotego do cyfrowego* (pp. 253–289). Warszawa: Oficyna Wydawnicza SGH.
- Twarowska-Mól, K. (2021). *Międzynarodowy system walutowy. Od złota do waluty cyfrowej*. Warszawa: CeDeWu.
- Tymoczko, I.D. (2013). Analiza porównawcza systemów kursu walutowego. *Materiały i Studia*, 287. Warszawa: NBP.
- Zabielski, K. (2002). *Finanse międzynarodowe*. Warszawa: Wydawnictwo Naukowe PWN.