

Publication Date: 09.02.2024

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International Financial System and Monetary Policy

Abstract



Since its inception, the euro has symbolized a gamble. The adoption of a unified currency by 12 independent nations in 2002 was an unparalleled endeavor. While smaller countries have previously adopted the currencies of larger ones, it has never occurred that large economies like Germany, France, and Italy have agreed upon a shared currency. Out of the four major European economies, only Great Britain opted not to adopt the "eurozone" and instead maintained its own currency. 16 nations had adopted the euro as of 2010. Historically, states have relied on their central banks to carry out monetary policy measures in order to achieve their policy objectives, such as controlling inflation and promoting employment. However, in order to engage in monetary policy activities, states must possess authority over their money supply. By relinquishing the German mark, the Italian lira, and 13 other European currencies, these nations transferred authority over their monetary policy to the European Central Bank (ECB). In this scenario, the European Central Bank (ECB) has taken over responsibility for the key variables of monetary policy from the central banks of the European countries.

Keywords: Finance, monetary policies, and international systems are among the topics of interest.

INTRODUCTION

Over the course of its five-year life, the euro appeared to be proving its worth. During this period, businesses and owners saw financial advantages by reducing expenses related to currency conversions while purchasing and selling products and services across state boundaries. They also avoided concerns about fluctuations in currency exchange rates. The ECB's monetary policies were widely praised due to their effective management of output and employment, resulting in minimal complaints about their behavior and activities. Subsequently, the financial crisis of 2007–2009 ensued. While this had a negative impact on the eurozone countries, some nations suffered disproportionately. The economies of Greece, Spain, Portugal, and Ireland, specifically, saw significant downturns. Prior to the introduction of the euro, these countries' central banks would have addressed the recession by permitting the depreciation of their currencies, with the aim of stimulating exports and curbing imports. Additionally, each nation would increase its monetary reserves. However, eurozone member states no longer have access to these methods for combating a recession. Compounding the issue, the decline in government income and the rise in government spending resulted in a substantial fiscal shortfall that could only be remedied by the sale of bonds. Regarding Greece specifically, investors grew apprehensive about the substantial debt the government was issuing through government bonds, fearing that the government might default on its interest or principal payments. The ECB, along with the governments of France and Germany, is under significant pressure to offer rescues that would effectively withstand the challenges posed by the sovereign debt crisis. Several analysts and politicians believed that in the event of Greece or any other eurozone country defaulting on its debt, it would be justifiable to discontinue the use of the euro, which might potentially lead to the downfall of the entire system. However, it is evident that the system will continue to uphold its integrity.

Regardless of the outcome, the euro narrative vividly demonstrates the objectives that governments aspiring to attain exchange rate stability can pursue, as well as the challenges they may encounter in doing so.

Materials and methods

When analyzing the demand for money, we often focus on the involvement of three key participants: central banks, the banking system, and the non-banking public. Nevertheless, due to the interconnectedness of international financial markets, foreign central banks, banks, borrowers, and lenders possess the capacity to impact the demand for money. International financial activities have a significant impact on the demand for money, particularly when central banks or governments attempt to manipulate the value of their currencies in relation to other currencies. Such intervention can lead to a contradiction between the objective of maintaining stability in foreign currency rates and the objectives of ensuring price stability and promoting economic growth within the domestic economy.

State reserves and other central banks occasionally engage in international markets to manipulate the value of their national currencies in the foreign exchange market. Foreign exchange intervention refers to the deliberate actions taken by a central bank to manipulate currency rates. Interventions in the foreign exchange market impact the deposits of central banks in their international reserves, which are held in a foreign currency and utilized for conducting global transactions.

To appreciate the value of the dollar in the foreign exchange market, the government can boost demand for dollars by selling off its foreign assets and purchasing dollars in the international foreign currency markets. Conversely, if the state desires to decrease the value of the dollar in the foreign currency

market, it might augment the quantity of dollars available by selling dollars and acquiring foreign assets. These transactions have an impact not only on the value of the dollar but also on the country's monetary foundation. The impact on a country's monetary base resulting from an intervention in the foreign exchange market can be illustrated using T-accounts. These accounts help track the influence on the state's balance sheet.

For instance, let's consider a scenario where the government aims to decrease the value of the dollar in the foreign exchange market. To achieve this, the government purchases foreign assets, specifically short-term securities issued by foreign governments, with a total value of 1 billion dollars. This transaction will boost the state's foreign asset allocation on the balance sheet by the same amount, adding \$1 billion to its international reserves. When the government pays for the acquisition of foreign assets by issuing a 1 billion dollar check, it increases its reserve bank deposits by the same amount, which is considered a liability. The impact of this global transaction on the balance can be succinctly described as follows:

STATE RESERVES			
Tools		Obligations	
External means	1 bilion \$	Bank reserves	1 bilion \$

Alternatively, the state has the option to make a payment of 1 billion dollars in foreign currency. As currencies in circulation are considered a liability for the state, its obligations will increase by 1 billion dollars.

STATE RESERVES			
Tools		Obligations	
External means	1 bilion \$	Currencies in circulation	1 bilion \$

Each transaction contributes to a rise in the monetary base by the amount of external money (international reserves) that has been purchased, as the monetary base is the combined total of currencies in circulation and bank reserves. Put simply, when a central bank buys foreign assets, it has a similar impact on the monetary base as when it buys government bonds in an open market. When a central bank acquires foreign assets, both its international reserves and monetary base expand by the exact amount of the purchased foreign assets.

Similarly, when a country aims to enhance the value of its currency in the foreign exchange market, it might achieve this by selling its foreign assets. As a result, the monetary base will decrease, leading to an appreciation of the country's currency. For example, if the government sells short-term securities issued by foreign governments worth 1 billion dollars, the amount of money in foreign funds held by the government will decrease by 1 billion dollars. In addition, the state's bank's reserves will drop by \$1 billion if buyers of foreign assets that the government is selling send their payments in the form of checks made out to neighborhood financial institutions. This transaction on the state balance sheet has the subsequent effect:

STATE RESERVES

Tools		Obligations
External means	1 bilion \$	State bank reserves
		1 bilion \$

On the other hand, if the government used the proceeds from selling foreign assets to purchase dollars, the amount of currency in circulation (which is also a liability of the government) would decrease by the same amount as the foreign assets sold. The monetary base will decrease to the extent of the foreign assets (international reserves) that are sold, as it encompasses both the circulating currencies and reserves. The government's reserves, or foreign money held in domestic banks, will decrease. Put simply, when the central bank sells foreign assets to the monetary base, it has a similar impact as selling government bonds in an open market. The central bank's acquisition of domestic currency, funded through the liquidation of foreign assets, diminishes international reserves and the monetary base by the exact value of the foreign assets sold.

When a central bank permits the country's monetary base to respond to the sale or purchase of local currency in the foreign exchange market, such transactions are called unsterilized foreign exchange interventions. Alternatively, the central bank can employ domestic open market operations to counterbalance the alteration in the monetary base resulting from foreign exchange interventions. To illustrate this, let's suppose that the government divests overseas assets worth 1 billion dollars. If no compensatory action is implemented, the monetary base will decrease by 1 billion dollars. Simultaneously, the state has the ability to acquire Treasury bills worth 1 billion dollars from the open market. By intervening in the foreign exchange market, this action aims to reverse the devaluation of the monetary base. Exterior. The most effective way to demonstrate these transactions is by using the T-account provided below:

REZERVAT SHITETËRORE

Mjetet		Detyrimet
Mjetet e jashtme	1 bilion \$	Baza monetare (Valutat në
Bono të thesarit	1 bilion \$	qarkullim + Rezervat)

Sterilized interventions in the foreign exchange market refer to situations where interventions are conducted alongside compensatory operations in the domestic open market without affecting the monetary basis.

Results

Despite the potential impact on the domestic money supply, central banks occasionally interfere in the foreign exchange market with the aim of mitigating exchange rate volatility. The depreciation of a home currency raises the price of imported goods and has the potential to cause inflation. Central banks can mitigate the devaluation of their national currencies by purchasing assets denominated in the national currency and selling foreign currency denominated in foreign assets. A depreciation of the domestic currency might result in a scenario where the products of a nation become less competitive in global markets.

Central banks endeavor to mitigate the increase in value of their domestic currencies by divesting assets denominated in their domestic currency. In the following analysis, we will examine the impact of sterilized and non-sterilized operations in the securities exchange market on exchange rates.

The interaction between the supply and demand of the dollar on the foreign exchange market is what primarily determines the exchange rate. Here, we will analyze the impact of the central bank's involvement on exchange rates in the foreign currency market, presenting the information in a simplified manner. Assuming that the state intends to increase the value of the US dollar compared to the Japanese yen, they plan to intervene in the foreign currency market without offsetting the effects on the money supply. The government plans to engage in the sale of short-term Japanese government securities, a move that will result in a reduction of the country's monetary base value. Here, we observe a decrease in the supply of the dollar in the foreign exchange market. It is important to note that a depreciation of the monetary base would result in a concurrent rise in interest rates within the country. As domestic interest rates increase relative to the Japanese yen, there will be a greater demand for US dollars from overseas investors who wish to purchase financial securities in the United States. Conversely, US investors will have a reduced interest in buying Japanese financial instruments. In order to decrease the availability of the US dollar in exchange for the Japanese yen.

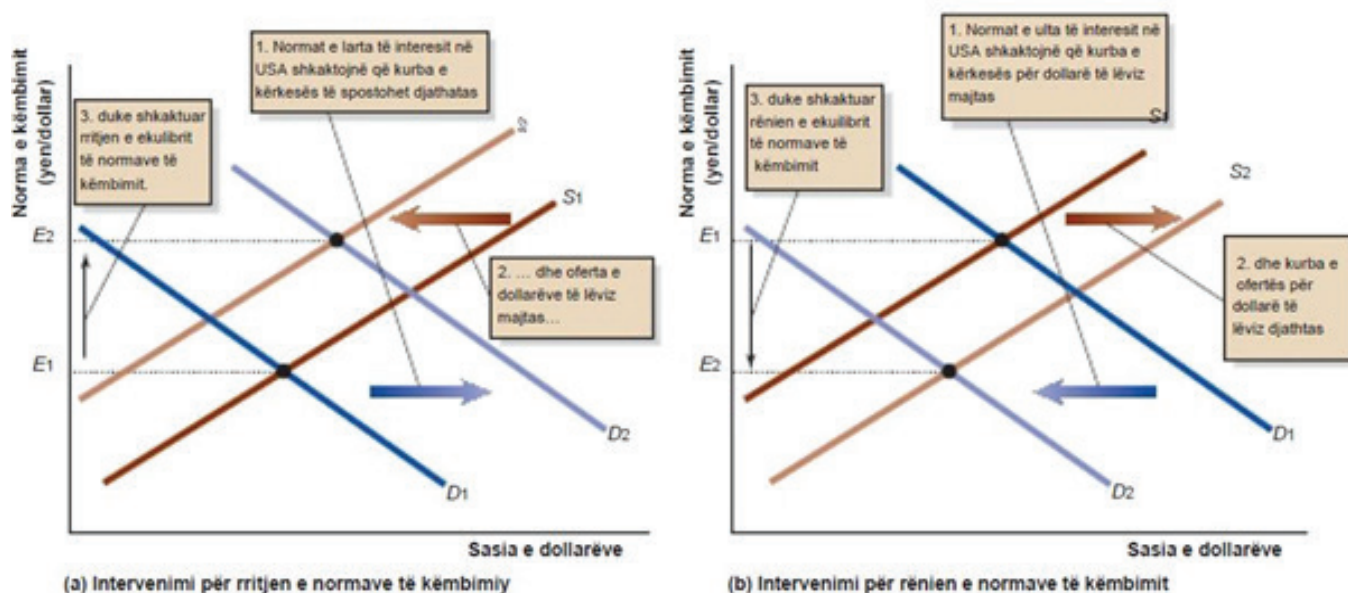


Figure 1 illustrates the impact of an unsterilized intervention in the foreign exchange market on exchange rates.

Figure 1 (a) illustrates the rightward shift of the demand curve for dollars in exchange for Japanese yen from position D_1 to position D_2 . Additionally, it shows the leftward movement of the supply curve from position S_1 to position S_2 . The exchange rate balance is calculated between position E_1 and position E_2 , leading to the successful increase of the dollar's exchange value in the state market. Therefore, in the absence of any other modifications, an unsterilized intervention involving the central bank selling foreign assets in return for domestic currency will result in a decrease in international reserves and the monetary base, as well as an increase in the value of the domestic currency.

In order to devalue exchange rates in the foreign currency market without offsetting the effects, the government needs to acquire short-term securities issued by the Japanese government, which will result in an expansion of the country's monetary base. With an increase in the monetary base, domestic interest rates will decrease, resulting in a leftward movement of the demand curve for dollars in exchange for

the Japanese yen from position D1 to position D2. Simultaneously, the supply curve for dollars will shift to the right from position S1 to position S2. Figure 1. (b) illustrates that the outcome of this process leads to a decrease in the value of exchange rates, shifting from position E1 to position E2. Therefore, in the absence of any other modifications, an unsterilized intervention, including the central bank's purchase of foreign assets in return for domestic currency, will result in a rise in international reserves and the monetary base, together with a devaluation of the domestic currency.

As mentioned earlier in the article, central banks employ open market operations to counteract the impact of unsterilized interventions in the foreign exchange market on the monetary base. As the monetary base remains unchanged, there will be no impact on domestic interest rates. If the government sells short-term securities produced by the Japanese government and simultaneously counteracts this intervention by purchasing Treasury bonds, the internal exchange rates will remain unaltered. Consequently, the demand and supply curves for dollars in relation to the Japanese yen will remain untouched, resulting in no alteration in exchange rates. From this analysis, we may deduce that a sterilized intervention has no impact on exchange rates. In order to achieve desired results in altering exchange rates, central bank interventions must be non-sterilized operations.

Between 1994 and 1995, Mexico experienced a currency crisis, while between 1997 and 1998, several countries in East Asia also faced currency crises. Amidst these crises, the nations affected experienced a substantial depreciation in the exchange values of their currencies, leading to the disruption of their economies. Significant influxes and outflows of financial assets, also referred to as capital inflows or capital outflows, contributed to the escalation of these crises. This prompted certain economists and politicians to implement limitations, such as the prohibition of capital movement in developing market countries. Capital controls refer to government-imposed limitations on foreign investors purchasing domestic assets or on domestic investors purchasing international assets. Capital regulations restrict the capacity and opportunity of local investors to diversify their portfolios globally, leading them to prioritize higher returns on home assets over foreign ones.

While capital outflows were a factor in currency crises that prompted political leaders, like the Malaysian prime minister, to impose restrictions on capital outflows, the majority of economists maintained a critical view regarding the impact of such curbs on domestic economies. Capital control inherently encompasses and gives rise to a multitude of significant issues. Initially, under the implementation of capital control measures, local enterprises and investors are required to obtain official authorization from the government in order to engage in the conversion of domestic money into any foreign currency. In this scenario, the government authorities overseeing the issuance of these permits may demand bribes as a prerequisite for awarding them to firms and investors. Many emerging nations that have enforced capital controls have been observed to exhibit a relatively elevated degree of corruption in their governmental administration. Furthermore, multinational corporations may exhibit hesitancy when investing in nations that impose capital controls. This is due to the fact that, as long as they are unable to convert domestic currencies into foreign currencies, these corporations will encounter challenges in repatriating the profits they accrue from these nations back to their countries of origin. This is a significant issue, as numerous developing nations rely on the willingness and inclination of major multinational corporations to establish factories and other facilities within their borders in order to attain high rates of economic growth. Many countries acknowledge that their capital controls are ineffective and are being breached by individuals and companies that engage in illicit foreign exchange transactions on the black market. This involves the illegal exchange of domestic currencies for foreign currencies by unauthorized traders.

Some economists are more in favor of imposing restrictions on capital inflows than on capital outflows. This is partly due to the fact that capital inflows often lead to sudden disruptions in domestic economies and raise the risk of domestic banks. Furthermore, some economists argue that mitigating this issue can be achieved through enhancing banking laws and bolstering state supervision in nations with developing economies. Thus, capital inflows can once again function as a significant financial mechanism for directing foreign investment towards countries that provide favorable investment prospects.

Discussions

Although the gold standard was unsuccessful, other countries continued to show interest in the idea of maintaining fixed exchange rates. Following the conclusion of World War II, delegates from the United States, the United Kingdom, France, and other Allied nations convened in Bretton Wood, New Hampshire, to formulate a fresh financial structure and a novel international monetary system. The outcome of this agreement is famously referred to as the Bretton Woods System, which remained in effect from 1945 to 1971. The creators of this system aimed to replicate a fixed exchange rate system while still permitting short-term replenishment. This economic framework was also rooted in the gold standard. The United States consented to exchange its currency at a fixed rate of \$35 per ounce of gold, only with foreign central banks. In this scenario, the residents of the United States would be unable to exchange their dollars for gold. All member nations' central banks in this system had made a commitment to purchase and trade their currencies in exchange for the US dollar at a predetermined rate. By pegging their exchange rates to the US dollar, these countries are effectively pegging their currencies' exchange rates to one another. Due to its prominent position in the global economy and possession of the majority of the world's gold reserves, the United States played a significant role in this system. The dollar acquired the status of the international reserve currency due to central banks utilizing dollar and gold assets as a means of international reserves.

According to the Bretton Woods System, it was believed that exchange rates would only stabilize when a country faced a persistent imbalance in its balance of payments, either in the form of a chronic deficit or surplus, while maintaining a fixed exchange rate. The Bretton Woods Agreement established the International Monetary Fund (IMF) as a means for countries to address short-term economic imbalances in their balance of payments through the maintenance of a fixed exchange rate. Situated in Washington (Washington, DC), this global entity has grown from 30 constituents in 1945 to 187 constituents in 2010. The primary purpose of the IMF's establishment was to oversee the implementation of the Bretton Woods system and serve as a provider of emergency funding when all other options have been exhausted. The resort is necessary to prevent any temporary economic disruption from destabilizing the fixed exchange rate system. In reality, the IMF, which endured the downfall of the Bretton Woods system, also promotes domestic economic policies that align with maintaining stable exchange rates. Additionally, it gathers and standardizes global economic and financial data to monitor member states.

The Bretton Woods agreement established the IMF's primary mandate, which does not include maintaining fixed exchange rates, but it has since expanded its role as an international lender of last resort. In the 1980s, as the global debt crisis unfolded, the International Monetary Fund (IMF) extended loans to numerous countries to assist them in repaying their debts. The IMF's provision of loans during the Mexican financial crisis in 1994–1995 and the East Asian financial crisis in 1997–1998 generated significant controversy regarding the IMF's position in the global financial system.

Advocates of the IMF in this instance highlighted the necessity of providing a final resort loan to address emerging market financial problems. In relation to this matter, opponents of the IMF presented two opposing arguments. One argument against the IMF is that it promotes moral hazard by incentivizing excessive risk-taking through the withdrawal of external lenders. This perspective argues that the International Monetary Fund's provision of financial assistance to foreign creditors during the financial turmoil in Mexico incentivized the practice of making risky loans in East Asian nations, ultimately contributing to the escalation of the crisis in that region. Counterargument: The second point is that, despite the IMF's approach to foreign lending, the "rigorous" institutional programs implemented by developing countries prioritize reducing government expenditure and raising interest rates. These macroeconomic policies contribute to unemployment and political instability.

The Bretton Woods agreement established a system of fixed exchange rates. The fixed exchange rates of the Bretton Woods system have been upheld through central bank interventions in the foreign currency market, involving the purchase and sale of assets denominated in US dollars. Exchange rates had the potential to fluctuate by a maximum of 1% above or below the fixed rate until governments acted to stabilize them. When a foreign currency increases in value compared to the dollar, the central bank of that nation will sell its currency in return for the dollar, restoring the exchange rate to its predetermined level.

Typically, a central bank may uphold a stable exchange rate by actively purchasing and selling the required quantity of its own currency. When a central bank from another country purchases its own currency, it exchanges it for dollars, which are considered international reserves. When a central bank from another country engages in the sale of its currency, it acquires dollars in exchange. This leads to a notable imbalance in the central bank's actions when faced with market-induced fluctuations in the currency rate. A country with a surplus in the balance of payments faces no limitations in its capacity to sell its currency and purchase dollars in order to uphold the exchange rate. On one hand, a state with a deficit in its balance of payments can purchase its own currency in order to raise its value compared to the US dollar. However, the state's availability of foreign reserves limits this power. The shortfall in the balance of payments led to significant challenges for central banks, as it prompted a circulation of reserves. These central banks faced limits due to the Bretton Woods arrangement. If the stock of international reserves is depleted, the government and central bank would implement restrictive economic measures such as raising interest rates, decreasing imports and the trade deficit, or discontinuing the policy of stabilizing exchange rates with the US dollar. Devaluations and revaluations in Bretton Woods. Në sistemin Bretton Woods, një shtet mund të mbrojë normën e tij të këmbimit të fiksuar duke përdorur veprime si blerjen ose shitjen e rezervave, ndryshimin e politikave ekonomike të vendit, ose kërkesën e lejes me shkrim nga FMN për të ndryshuar normën e këmbimit. When a country's currency is overvalued compared to the US dollar, according to the agreement with the IMF, that country might devalue its currency, which means increasing the official value of that currency against the US dollar.

In reality, countries frequently deviate from the devaluation and appreciation of currencies. Within the framework of the Bretton Woods system, countries have shown a preference for deferring devaluations rather than confronting the political challenges that could disrupt their monetary policies. Revaluations were met with even less favor. Domestic producers and their workers vehemently protested when a currency was allowed to appreciate against the US dollar, as this led to a decrease in the competitiveness of domestic products in global markets. Consequently, profits were reduced, and unemployment rates increased. Political pressure for devaluation and revaluation refers to the influence exerted on governments to adjust their currency rates in reaction to significant imbalances in the foreign exchange market.

There are instances of speculative attacks targeting the Bretton Woods System. Investors, when perceiving that the government lacks the capability, capacity, or willingness to uphold its exchange rate, aim to make a profit by selling a depreciating currency or purchasing an appreciating currency. Speculative attacks, also referred to as currency attacks, have the potential to cause the depreciation or appreciation of a currency. Speculative attacks have the potential to create global financial disasters. In 1967, the British pound was overvalued relative to the US dollar. Figure 3 depicts the speculative assault on the British pound. The convergence of demand and supply for the British pound against the US dollar takes place at point E1, which is situated below the established exchange rate of £1 = \$2.80. Consequently, there is a rise in the value of British pounds relative to the US dollar during the exchange process. In order to safeguard this inflated exchange rate, the Bank of England had to acquire the requisite surplus pounds, equivalent to the difference between Q2 and Q1, by utilizing US dollars from its international reserves.

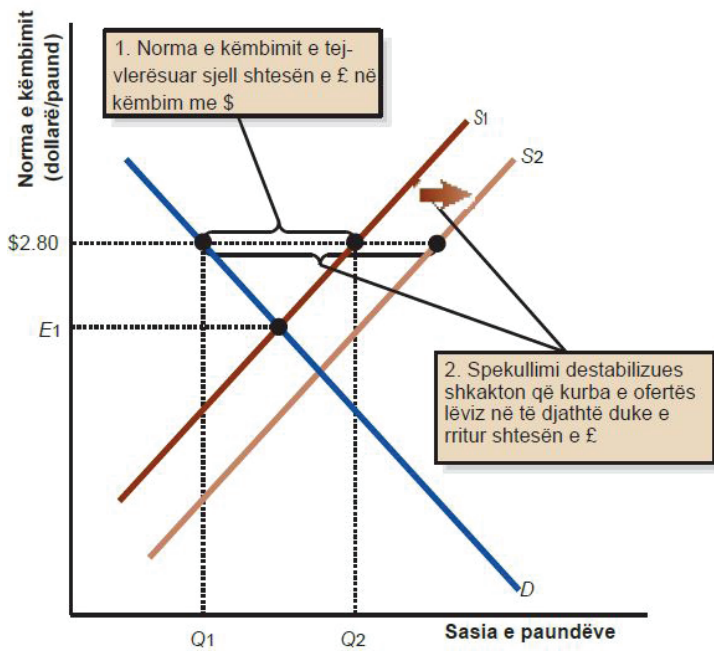


Figure 3 illustrates a speculative attack on the British pound.

Given the depletion of the Bank of England's overseas reserves, currency traders were aware that the bank would eventually have to cease its stabilization endeavors. In response to this circumstance, speculators sold British pounds to the Bank of England, including pounds borrowed from banks, at a fixed exchange rate of £1 = \$2.80. They anticipated a decline in the value of the pound relative to the US dollar. Subsequently, as the pound's worth depreciated, speculators used their dollars to repurchase the pound at its reduced price, generating an extra financial gain. Regarding our graphical study, speculators induce a shift in the supply curve for the pound from the S1 position to the S2 position, resulting in an escalation of the overvaluation of the British pound. The disparity between the fixed exchange rates and the market exchange rates compelled the Bank of England to acquire additional British pounds, ultimately depleting all available US dollars. The Bank of England incurred a loss exceeding \$1 billion in international reserves on November 17, 1967. On November 18, 1967, the Bank of England devalued the British pound by 14%.

Devaluations occur due to speculative attacks when central banks are unable to safeguard currency values, as seen in the British crisis of 1967. Conversely, revaluations can occur due to speculative attacks in situations where central banks intentionally avoid defending exchange rates. Trade. In 1971, a deliberate attempt to manipulate the value of the German mark, which was seen to be priced too low,

resulted in its upward adjustment relative to the US dollar and accelerated the abandonment of the Bretton Woods system.

Conclusions

Interventions on the foreign exchange market are deliberate actions by a central bank to manipulate exchange rates. Foreign exchange market interventions impact the international reserves of a central bank, which consist of foreign currency-denominated assets utilized in global transactions. The government possesses the capacity to manipulate the worth of the national currency in foreign exchange transactions through the purchase and sale of foreign assets, as well as the purchase and sale of dollars in international foreign exchange markets. Unsterilized foreign exchange interventions refer to situations where the central bank permits the monetary base to respond to the buying or selling of domestic currency in the foreign exchange market. A sterilized intervention in the foreign currency market refers to an action taken to influence the exchange rate of foreign currencies while simultaneously offsetting the impact on the domestic money supply through operations in the domestic open market.

A central bank's action to buy or sell foreign assets in exchange for local currency is known as an unsterilized foreign exchange intervention. This action results in changes in international reserves and the monetary base, as well as causing the local currency to appreciate or devalue. An intervention that has undergone sterilization does not have an impact on exchange rates. In order to achieve desired results, central bank operations targeting currency rates must be unsterilized. Capital controls are government-imposed limitations that limit international investors from buying domestic funds or domestic investors from buying foreign funds.

The balance of payments account quantifies the total movement of funds, encompassing both private and public funds, between the home economy and all foreign nations. In the context of the balance of payments, funds coming from foreign nations to our country are considered inflows and are recorded as positive values. Conversely, funds leaving our country and going to foreign countries are considered outflows and are recorded as negative values. The inflows and outflows in the balance of payments must be in equilibrium, meaning that the sum of the balance from the current account and the sum of the balance from the financial account must be zero.

The current account provides a comprehensive overview of the economic transactions between a country and its foreign trading counterparts, encompassing the exchange of services and manufactured items. The financial account quantifies the exchange of pre-existing financial or tangible assets across nations. Official reserve funds refer to money held by the central bank that is utilized for international payments to rectify imbalances in the balance of payments and implement international monetary policy. The equilibrium of government adjustments is commonly known as the balance of payments deficit or surplus. When a country experiences a surplus in its balance of payments, it accumulates foreign reserves, whereas a deficit in the balance of payments results in a depletion of international reserves.

The exchange rate regime refers to the system that governs the adjustment of exchange rates and the flow of goods and capital between countries. Historically, the prevailing exchange rate regimes predominantly consisted of fixed exchange rate systems, when governments established and upheld exchange rates at specific levels. Under the Gold Standard, the currencies of participating countries can be exchanged for a predetermined quantity of gold. The gold standard was extensively implemented between 1870 and 1914, but it was dismantled with the significant depreciation that occurred in the

1930s. The Bretton Woods system, which entailed the establishment of fixed currency rates, remained in effect from 1945 to 1971. The Bretton Woods system was responsible for the establishment of the International Monetary Fund (IMF), which served as the regulatory authority for the system and provided financial assistance to countries facing challenges in their balance of payments. While the Bretton Woods system did let countries adjust their currency rates by devaluing or revaluing them, such adjustments were seldom made. However, in 1971, a speculative attack on West Germany resulted in an undervaluation of exchange rates and ultimately led to the collapse of the Bretton Woods system. Following the termination of the Bretton Woods system, the United States has formally adopted a regime of variable exchange rates. The international financial system today can be characterized as a managed fluctuation regime, as governments and central banks occasionally interfere in foreign exchange markets. In 1992, the member states of the European Community formulated proposals for the establishment of the European Monetary Union, which involved the creation of a unified central bank known as the European Central Bank (ECB) and the adoption of a shared currency called the euro. Amidst the financial crisis of 2007–2009, the stability of this widely used European currency was compromised. Currency pegs are an alternative method for maintaining stable exchange rates, whereby one country keeps its exchange rates constant against the currency of another country.

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