

Systemic Approach to the Analysis of the Mutual Settlements in the National Currencies of the Eurasian Economic Union

Lidia N. Krasavina, Lyubov I. Khomyakova

Financial University under the Government of the Russian Federation
Moscow, Russia

Abstract—The novelty of the article consists in a systematic approach to the analysis of mutual settlements in the national currencies of the Eurasian Economic Union (EAEU) on the basis of the upward and downward connection to its integration development. The systemic approach has revealed the fundamental reason for the insignificant share of the mutual settlements in the national currencies of the EAEU (except the Russian ruble), which is caused by the incompleteness of the formation of a common market of factors of production and the preservation of barriers in this area and the need to address this problem. On the basis of the systemic riskology, the risks of dominance of the world currencies in the international settlements of the EAEU countries and the chance to reduce them as mutual settlements in the national currencies become more active, as well as the smooth decline of the US dollar and the euro, were identified. The advantages of mutual settlements in the national currencies based on the development of the integration processes in the economies and mutual trade of the EAEU countries have been substantiated and systematized. The important role of the EAEU Integrated FX Market at the Moscow Exchange in the development of mutual settlements in the national currencies has been revealed. Identification of drawbacks and risks of losses in mutual settlements in national currencies in the EAEU became the basis for the authors' proposals to reduce them and improve the efficiency of this mutually beneficial form of international settlements of the Eurasian Economic Union. Relevance of the article is due to the new EAEU documents "Main Directions for the Development of the EAEU till 2030", "Declaration on the Further Development of the Integration Processes within the EAEU".

Keywords—*Eurasian Economic Union (EAEU); mutual settlements in national currencies of the EAEU; risks of mutual settlements in the national currencies; chance to reduce the risk of losses in settlements; Integrated FX Market*

I. INTRODUCTION

The scientific concept of the international settlements as a regulation of obligations on payments and currency requirements of the countries determines the need to specify the conditions, order and form of payments in foreign economic agreements in order to increase their effectiveness for exporters and importers, taking into account the differences in their interests. Regionalization and multipolarity of global economic and financial development stimulated the

trend towards mutual settlements in the national currencies of the member countries of integration and non-integration associations. This process in the EAEU countries develops gradually and differentially, mainly in Russian rubles. But there is almost no demand for Armenian dram and Kyrgyz som. As a result, the world currencies prevail in the international settlements of the EAEU countries, mainly the US dollar and the euro, which increases the risks of losses of the EAEU countries. Meanwhile, the advantages of the mutual settlements in the national currencies are the following: the reduction of transaction and conversion costs due to the use of the US dollar cross rate. In this regard, the risk of dependence of the EAEU countries on the US external sanctions policy, including the use of the US dollar correspondent accounts owned by foreign countries, is increasing. An important advantage of mutual settlements between the EAEU countries was the creation of the EAEU Integrated FX Market on the Moscow Exchange.

The purpose of this article, based on the conclusion about the slow and differentiated participation of the EAEU currencies in mutual settlements, is to substantiate the proposals to activate this trend in the process of increasing mutual settlements in conjunction with the strengthening of the EAEU integration interaction.

II. METHODOLOGY

The analysis of the mutual settlements in the national currencies of the EAEU countries was carried out on the basis of the systemic methodology, which determines the logic of the systemic approach to the consideration of this problem. The systemic analysis of the state of the international settlements in the EAEU national currencies revealed their slow development and uneven participation of their currencies, except for the Russian ruble, and the prevalence of the world currencies (the US dollar and the euro) in the most EAEU countries. The systemic multifactor approach to the study of the causes of such a state of mutual settlements in the EAEU national currencies has revealed the fundamental reason for the slow development of such settlements - the incompleteness of the formation of a common market of factors of production – goods, services, capital, labor resources, as well as barriers to their movement in the interaction of countries, especially the integration one. On the basis of a systematic approach to the

analysis of mutual settlements in national currencies, their advantages are justified. The trend of a smooth decline in the share of world currencies, especially the US dollar in international settlements of the EAEU countries, their dependence on the US sanctions policy and the risk of settlements blocking through their US dollar correspondent accounts was revealed. The advantage of the practice of mutual settlements in national currencies at the Moscow Exchange, to which banks of the integrated economic union gained access using their national licenses, is analyzed. Using a combination of two systemic factors – the slow development of mutual settlements in the national currencies of the EAEU countries and the need to solve the problem of strengthening their integration cooperation – the proposal to solve this important problem, taking into account the new management documents, is justified.

III. ASSESSMENT OF THE STATE AND THE RISKS OF MUTUAL SETTLEMENTS IN THE NATIONAL CURRENCIES BETWEEN THE EAEU COUNTRIES

Anti-Russian sanctions of the US, the EU and some other countries have had a negative impact on the foreign economic activities of the Russian banks and their clients. This stimulated the adoption of anti-sanctions measures to support Russian banks repaying their international debt obligations. The main emphasis was placed on strengthening the Russian banking system [1]. Anti-Russian sanctions have also stimulated the development of mutual settlements in national currencies with the EAEU and the BRICS partner countries.

The advantages of the mutual settlements in the national currencies based on the interstate agreements of the EAEU countries are manifested in the economy of their official foreign exchange reserves, reduction of the dependence of foreign economic activity of the world currencies, especially the US dollar, and their sanctions policy, including the risk of blocking the dollar assets in the correspondent accounts of foreign counterparties.

The use of the EAEU national currencies is an important factor in strengthening the economic cooperation. The main trend in the use of national currencies in the EAEU mutual settlements is a gradual reduction in the share of the US dollar and an increase in the share of the EAEU national currencies. This is mainly due to the operations in Russian rubles (from 68% in 2013 to 72.7% in 2018) [3]. However, the US dollar continues to occupy a significant place in the trade settlements of the EAEU countries with the third countries.

The share of the US dollar is the highest in Kazakhstan and Kyrgyzstan. The Russian ruble is most actively used by Belarusian foreign trade participants. The volumes of settlements in other EAEU national currencies have remained at the level of 1-2% on average over the years.

The EAEU national currencies are not actively used in the mutual settlements, which is due to the low share of the mutual trade in the total trade volume of the EAEU - 13.5%. Only Belarus has less trade with third countries than with its EAEU partners – 49.2% against 50.8% [4, 5]. Since 2013, mutual trade between the EAEU countries has been negative. The most difficult situation was recorded in 2015, when the volume of mutual trade decreased by 25.5% compared to 2014 (in value terms). At the end of 2016, its reduction fell to 6.7%

[6]. In 2017, the downturn in mutual trade was replaced by growth [7].

Negative trends in the economy, monetary and foreign exchange relations of the EAEU countries also have a negative impact on the exchange rates of the national currencies and confidence in them on the part of economic entities. As a result, the business activities of the EAEU countries' economic entities are exposed to great risks. Among them are the risks of changes in exchange rates, non-receipt of payments under contracts and export credits, legal risks associated with changes in the legislation of other countries, etc. That's why businessmen want to protect their interests. Effective protection of the entrepreneurs' interests is at the focus of the activity of the national institutes of insurance of foreign trade - export and import banks, agencies and funds. These are specialized institutions intended for crediting and insuring of foreign economic operations, guaranteeing export credits. Export-import banks provide loans to those operations that private banks consider risky. Their activities are closely linked to export credit insurance institutions.

Exporters and importers also face risks associated with the organization of mutual settlements between the EAEU countries. Such risk depends on the choice of the method of determining the exchange rate ratio of the two participating countries. The application of traditional cross-rates based on the US dollar carries the risk of increasing transaction costs. This is due to the fact that the currency quotation based on the cross-rate (the ratio between the two currencies) is determined on the basis of the exchange rate of each of them against the US dollar. This is how the average exchange rate between the two currencies in which the mutual settlements are made is determined. This average rate is adjusted to take into account the exchange rate difference between the seller and the buyer of the currency. In order to reduce transaction costs for conversion operations in these currencies, the direct quotation of the exchange rate of the two currencies without the mediation of the US dollar is used in mutual settlements.

There may be a risk of the negative balance of mutual settlements in case of the insufficient funds of the importer. To repay this debt, the importer takes a loan from a bank, which increases its costs in mutual settlements. There are also costs associated with the need to hedge currency risks. One of the obstacles to the use of the national currency in foreign economic activity may be the lack of liquidity on the part of the importer and its insufficiency in the FX market.

There is a risk that the exporter may not be able to use the mutual settlement surplus in the national currency of the importing counterpart's country to purchase the necessary goods from it, if the country prefers to sell them for US dollars [8].

The participants of foreign economic activity consider high currency risks, established business practices, and lack of economic incentives as the main obstacles to the growth of the share of national currencies in the calculations. Experts concluded that the problem is the low level of demand for foreign exchange instruments in national currencies from the real sector of the economy [9].

Members of the EAEU FX markets are not sufficiently interested in the mutual access to the national markets and in the operations in national currencies. Enhancing the role of

national currencies in mutual settlements is a long-term process. The EAEU Integrated FX Market plays an important role in the implementation of this proposal. The creation of the EAEU Integrated FX Market with the participation of national exchanges provides an opportunity to gain advantages and avoid disadvantages in the mutual settlements in the EAEU national currencies. This is manifested in the reduction of transaction costs and risks of the EAEU banks due to the direct quotations of the national currencies avoiding the US dollar.

The EAEU Integrated FX Market brings the national FX markets closer together, expands their activities, promotes the growth of liquidity in the national currencies, increases the number of participants, stimulates innovation, and creates new financial instruments in the national currencies, while maintaining equal rights and opportunities for participants from the EAEU countries.

Integration of stock exchanges have a long history with the leading role of the International Association of Exchanges of the CIS countries and the Moscow Exchange, which accounts for the bulk of operations of all national markets of the CIS countries – about 95% of the total trading volume.

The project to create an Integrated FX Market was implemented jointly by the International Association of Exchanges of the CIS countries, the CIS Executive Committee, the EurAsEC Integration Committee, the Eurasian Economic Commission, the Bank of Russia and other CIS central (national) banks and the Moscow Exchange Group. Since 2009, the Moscow Exchange has been implementing rules according to which credit organizations of the EAEU countries have the right to become participants of trading on the FX market. In 2010-2012, the Bank of Russia and the central (national) banks of Belarus, Kazakhstan, Kyrgyzstan and Tajikistan signed agreements on information support of the Integrated FX Market.

The creation of the Integrated FX Market is aimed at developing cooperation between all EAEU countries. Currently, the largest number of participants is registered at the Moscow Exchange. These are the commercial banks of Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, which have had the opportunity to become members and participants of the Integrated FX Market on the basis of their national licenses without the need to obtain a Russian license, as well as the central (national) banks of Belarus and Tajikistan and two international financial institutions (the Interstate Bank and the Eurasian Development Bank). Exchanges of Belarus, Kazakhstan and Armenia also allowed the admission of non-residents to currency trading following the example of the Moscow Exchange.

Despite the increase in the number of participants in the EAEU Integrated FX Market and the advantages of the conversion operations and settlements in national currencies, direct quotations of national currencies are rarely used at present. Only the Belarusian Currency and Stock Exchange carries out BYN/RUB operations, at the quotations of which the National Bank of the Republic of Belarus sets the official BYN/RUB rate on a daily basis. In other EAEU countries, the liquidity of national currencies is not sufficient for the direct quotations of their official exchange rates. For example, at the Kazakhstan Stock Exchange and Moscow Exchange the share

of KZT/RUB operations is less than 1% of the currency markets [10].

Factors affecting the volume of national currency transactions are determined, firstly, by the economic feasibility of foreign trade turnover, payments and long-term direct investments, and, secondly, by the possibilities of short-term investments, risk hedging or speculative transactions, for example, in order to make profit in interest rate arbitrage and exchange rate differences. In addition, both factors determining the use of the national currency depend on the capacity of the national currency market to create competitive advantages. This set of factors includes the development of advanced market infrastructure, increasing the liquidity of the FX market, as well as improving currency regulation [11].

The impact of these factors is noticeable in the Russian ruble and the Chinese renminbi: the share of the renminbi in the international settlements is increasing (from rank 29 in 2004 to 8 in 2016). The share of the Russian ruble gradually increased from 17th place in 2004 to 12th place in 2013. However, as a result of the financial turmoil in 2015 and anti-Russian sanctions, when many foreign banks restricted operations with the Russian counterparties, the ruble returned to 17th place by 2016. At the same time, the US dollar continued to hold leading positions in the global foreign exchange market with a share of over 87%. Euro is in second place (with an average share of about 33%). The renminbi accounts for 4.0% and the ruble for only 1.1% of the FX market transactions (based on 200%) [12].

The analysis of the factors that contributed to the strengthening of the renminbi internationalization revealed the priority of economic growth factors for the Chinese economy and the increasing role of the renminbi in the foreign trade calculations. According to SWIFT (March 2019), the renminbi was ranked 5th in international payments. FX transactions with the renminbi are actively carried out in various countries of the world (the top 10 include the United Kingdom (36.14%), Hong Kong (28.74%), the United States (8.01%), Singapore (6.30%), France (5.88%), etc.) [13]. The ruble is no longer on the list of the twenty most frequently used currencies for settlements in the context of international anti-Russian sanctions.

Taking into account the current situation, a number of interstate decisions were made to increase settlements between the countries in the national currencies of the EAEU countries. This was due to the reduction in the cost of settlements, which can be carried out directly, bypassing third countries, the task of reducing the share of the dollar and euro, the turnover of which is not controlled in any way in the EEU countries, and the development of measures to insure the risk of loss of their exporters and importers in case of fluctuations in the exchange rates, to which they are subject when making settlements in the currencies of third countries.

Mutual settlements in the national currencies of the EAEU countries contribute to the development of their integration interaction at all stages of the reproduction process - (1) production of export goods and services or import of raw materials, fuel, equipment; (2) at the stage of circulation of created goods; (3) distribution; (4) exchange, i.e. implementation in the national and foreign markets, in a single chain of factors stimulating the development of integration of the member countries

IV. CONCLUSION

The analysis of mutual settlements of the EAEU countries in the national currencies became the basis for the next assessment of their condition.

1. Mutual settlements between the EAEU countries in the national currencies are developing slowly. This is largely due to the insignificant share of the mutual trade between the EAEU countries (12–13%).

2. The degree of participation of the national currencies of the EAEU countries differs significantly depending on their competitiveness and market demand for currencies.

3. A new phenomenon in the structure of international settlements of the EAEU countries was the increase in the share of the Russian ruble and the decrease in the share of the US dollar. However, the significant role of the U.S. currency in the calculations of the EAEU countries is one of the manifestations of the influence of the US policy aimed at using the currency factor of the destruction of the Eurasian integration economic union.

4. Foreign experience of creating a flexible line of financial instruments to support export of EAEU countries in the form of project financing, leasing, factoring, forfeiting, etc. is not sufficiently used.

[13] SWIFT RMB Monthly Tracker. Retrieved from <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/document-centre>

REFERENCES

- [1] L.N. Krasavina. "Influence of anti-Russian sanctions on the international operations of the commercial banks of Russia: analysis based on the risk/chance concept to reduce losses". *Banking Business*, 2019, vol. 5.
- [2] Eurasian Economic Commission. Payments for export and import of goods and services in 2018. Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/fin_stat/express_information/Documents/ei_payments/express_payments_2018.pdf.
- [3] Eurasian Economic Commission. Express Information. Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/fin_stat/express_information/Documents/ei_payments/express_payments_2018.pdf.
- [4] Eurasian Economic Commission. Mutual Trade of the EAEU Countries. Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/2018/Analytics_I_201812.pdf
- [5] L.N. Krasavina, L.I. Khomyakova "Mutual settlements in the national currencies of the Eurasian Economic Union (EAEU) countries as a factor of strengthening economic interaction of national economies". *Banking Business*, 2019, vol. 10.
- [6] Report on the State of Mutual Trade among the Member States of the Eurasian Economic Union in 2015-2016. Approved by the Order of the Eurasian Intergovernmental Council of 07.03.2017 #1.
- [7] Report on the State of Mutual Trade among the Member States of the Eurasian Economic Union in 2017. Approved by the Order of the Eurasian Intergovernmental Council of 02.02.2018 #3.
- [8] L.N. Krasavina, L.I. Khomyakova. "Internationalization of the Russian ruble: trends and prospects". Bryansk, VOG Publishing House, 2013.
- [9] V.Yu. Mishina., L.I. Khomyakova "Integrated currency market of the EAEU and operations in national currencies. Organization of client access of EAEU countries' residents to the FX market (review of speeches at the seminar)". *Money and Credit*, 2017, vol. 11. p. 67.
- [10] V.Yu. Mishina, L.I. Khomyakova "FX markets of the countries of the Eurasian Economic Union: development prospects". *Money and Credit*, 2017, vol. 2. p.61.
- [11] V. Yu. Mishina, D.O. Abramov, "Main directions of development of the Russian currency market". *Money and credit*, 2015, vol. 4, pp. 19–27.
- [12] Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2016. Retrieved from <https://www.bis.org/publ/rpfx16.htm>