

# Dedollarization as an Indicator of the Formation of National-Oriented Public Policy

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**Abstract.** Sanctions, as well as dollarization of national economies, are "legitimate" instruments that once consolidated the status of the world financial hegemon for the United States of America. However, this hour is completely different: the dollar, which was based on the function of a liquid asset, at the moment, has lost its greatness - it's using not as a universal equivalent in the exchange of goods, but as a political weapon, mediated by economic and political sanctions. Consequently, more and more countries including Russia, are beginning to Express a "vote" of no confidence in the American currency by means of dedollarization - a policy of "abandoning the dollar" considering as an economic and political decision, which is aimed at achieving the optimal effect. The latter is to elevate the financial sovereignty of the nation-state in reference to the dollar. Therefore, in October 2018, the Minister of Finance of the Russian Federation A. Siluanov and the Chairman of the Board of VTB Bank A. Kostin stated the need for economic transformation in Russia in order to reduce dependence on Western countries, in particular, on the United States.

## 1. Introduction

*Urgency.* At the present stage of formation of the state, special attention is paid to the regulation of economic policy both inside and outside it. This is because the economy is the subject of public scrutiny, since any decisions have been taken on behalf of the state in this area will determine the welfare of the nation and the status of the country vis-à-vis other subjects of international relations.

Talking about international relations, it should be noted that in recent years their nature has become sharply complicated due to the intensive forms of countries impact on each other through economic sanctions that are one of the forms of securing state's own interests in the international geopolitical landscape. The sanctioner is guided by his personal interests in relation to the one who will be subject to restrictive measures, without thinking about the possible costs of the latter. What can not be said about the state, which was subjected to economic discrimination. Sanctions are one of the first problems that need to be addressed immediately. The latter, mediated by a rationally sound and optimal strategy, would make the national economy more flexible with respect to constraints. However, the situation may also worsen if the economic system of the state is predominantly dollarized.

To date, the "key currency" has begun to play not so much the role of the world currency, as the role of political weapons, allowing to exert pressure in the political and economic aspects. Then arises the question of developing and adopting the most rational economic and political decision that will reduce the risks of sanctions and their subsequent reduction. Dedollarization could be viewed as a decision aimed for a response to the sanctions policy.

Russia is a country that has been under sanctions pressure for five years since 2014. The result is the following: the collapse of the ruble in the ratio of 84 rubles per 1 dollar, the reduction of the cost of

domestic coal-roads, the degradation of financial opportunities for Russian companies. There is also an option related to the freezing of dollar assets. All of this, of course, hit the social economy - inflation rose sharply, which gave rise to cyclical and then structural unemployment.

Despite the fact that the socio-economic situation has more or less stabilized, sanctions continue to flow rapidly into the Russian economy, and the Russian government has no choice but to radically change the economic course - towards dedollarization.

Thus, on the example of the economic policy that is being implemented by the Government of the Russian Federation at the moment, countries that are under sanctions and depend on the dollar equivalent can rehabilitate their micro and macroeconomic situation.

*The purpose and objectives of the work* is on the example of dedollarization of the Russian economy, it is necessary to show, analyze, justify the use of tools in the formation of economic policy of macroeconomic state decisions.

To characterize the nature of decision-making process in the context of conducting macro and microeconomic policies we used Internet sources and the works of the following authors: Katasonova V.Y., Gusev K., Semenov S. K.

## **2. Dedollarization as an antipode of dollarization in the context of economic policy**

Privileged situation of some countries to the international financial system creates a number of negative consequences for the states where rate of national currency is tied to dollar. In practical terms it looks as making speculative attacks on the international stock markets of various countries that causes sharp devaluation of local currency or its full collapse. As a result the trust to national currency decreases, and the loyal relation to dollar grows. The tough policy and concerning the credits is in parallel conducted. For example, to obtain the credit of the IMF, the state has to fulfill a number of extortionate and very strict requirements. Due to such manipulations the economic situation in the country is getting worse, and the position of dollar becomes stronger.

Conceptual representations of the state's decision making policy at their consolidation are presented at the many-sided Public Administration model where the predominating role is given to the institutionalized mechanism which task consists in the public relations' regulation. The state, being "multistructure" institute adheres to the administrative mechanism as universal, peculiar to all social world with regard to adoption of decisions. In fact it is an over-arching process which represents the unified format relating the estimation of characters' position with the subsequent forecasting of its environment's development: the resources which are at the disposal of the actor are used, are necessary for achievement of the goals. Consequently, the consecutive chain given above gives an approximate idea of the decision-making policy nature in terms of its managerial recognition. The last is mediated by national interests regarding social and economic and legislative providing.

Institute of the power is multivector orientation with socio-political mechanisms inherent in it. As the concept is the subsequent step-by-step strategy, it is caused by both external and internal factors are existing start-up economic conditions in the country.

Considering external factors, it is possible to assume that they are defined not only by the economic realm, but also political, i.e. extent of interaction of the states in the international landscape. However not always the interstate relations are positive.

Dedollarization represents a complex macro- and microeconomic measures which main goal consists in increasing the financial appeal of national currency in comparison with foreign currency [1]. Thus, by means of "soft" macroeconomic parameters, the establishment can promote currency replacement, using at the same time certain market incentives of transition from foreign monetary unit to the national. In a case of inefficiency of the "soft" macroeconomic parameters "the forced dedollarization" which cornerstone the limiting and forbidding measures for circulation of dollar in the state financial space is carried out.

The priority of the American currency in scales of a world monetary system officially originated since July, 1944, the Bretton Woods conference. Actors of the international economic relations conducted negotiations concerning that currency which would receive the status "key" [2]. The unanimous

choice of member countries is obvious, the only state which had gold and exchange stocks during the Second world war was America which despite the involvement into the international crisis, since 1942 actively advanced comprehensive trade, demanding from importers payments either in dollars, or gold. As the majority of the countries did not have the last, many states began to save reserves in a dollar equivalent that promoted typesetting of "weight". Thus, America, being involved in the war and at the same time having gold reserves (¾ from all gold that was in stocks of the dominating countries of the world) which provided dollar, started taking over the world economy progressively.

The second half of the 2000s was marked by potential economic threats from the recognized equivalent of commodity value for countries whose national economies are predominantly in direct dollar dependence. A good example of this was the global financial crisis of 2007, which later became known as the "great Recession". The essence of which is that the United States, as a global "financial" institution that had (and has) the right to issue the dollar, has increased its financial leverage that allows to "print" money freely. In 2006. – the "mortgage crisis" - the American real estate market fell sharply due to the frivolous and overly trusting policy of the us banking system in relation to the borrowers. The consequences were very negative: a huge drop in indices in the stock markets, which also affected the oil market. But most importantly, there was a significant weakening of the dollar against other currencies, as most countries already had dual currency financial systems. The latter, in turn, is the catalyst that provoked widespread financial and currency degradation, which ultimately led to a production collapse.

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Now the socio-economic situation has stabilized, but the sanctions continue to operate, therefore, it is necessary to radically change the economic course.

The topic of de-dollarization of the Russian economy is not new. Since 2000, there has been an active debate about whether to abandon the US currency. Even after the default in 1998, Vladimir Putin said that the dollar would not give anything good, but would only worsen the situation of the national economy and break its financial sovereignty [3]. In October 2018, the Minister of Finance of the Russian Federation A. Siluanov and the Chairman of the Board of VTB Bank A. Kostin on the secondary proposal of V. Putin declared the need for economic reforms in Russia - the policy of "abandoning the dollar" [4].

"The economic concept involves reducing dependence on the dollar, which, as a world settlement currency, was not used as an all-common equivalent in the exchange of goods, and as a political weapon" [5]. The US dollar in the world calculations and reserves of Central Banks is widely used for trade operations both within the state and abroad, almost completely displacing the national currency from the monetary turnover. Thus, according to the IMF, the dollar's share in the international (gold) reserves of the countries is about 63 %, while the US share in the world economy is 25 %. This indicator means that any trade activity of the countries is carried out by means of the American currency. In addition to external factors should not be overlooked and internal. It should be noted the demand for the American currency directly in the domestic trade turnover of Russia. If the stock market prices are falling, the majority of investors prefer to buy other assets, in particular, actively buying up us dollars. As a result of such actions, the exchange rate of the dollar begins to grow significantly, the price of it also rises, while the Russian currency begins to fall in price. To implement the concept of de-dollarization, a strategy has been developed for 5 years: from 2019 to 2024 and involves the following stages.

First, it is planned to switch to mutual settlements in national settlements between economic agents in the sphere of trade and slightly change the contract law. For example, in bilateral relations between Russia and China, it is possible to achieve a transition to payments in yuan and rubles, thereby making the dollar a second-plan currency. However, China, which was previously ready to switch to de-

dollarization, is currently refusing to sign an intergovernmental agreement with Russia on payments in national currencies, which has been prepared since 2014. The situation can be understood, as just two years ago the country joined the IMF, which made the yuan a strong enough currency in the form of the euro, pound, yen and dollar - and you should not lose such positions. Many experts and analysts believe that at the moment the Russian ruble is not absolutely used by Chinese businessmen in business operations. This statistics is confirmed by the fact that in China about 70 % of all financial transactions are carried out with the participation of the US dollar. Russian analysts believe that at the moment China is much more important to maintain good relations with economically developed countries, such as the US and the EU. Therefore, the implementation of the early agreements with Russia in this case will simply take a back seat.

Secondly, an important measure proposed by the Ministry of Finance is the reorientation of companies to domestic financing, which will increase the visibility of the national currency. However, to implement this parameter, it's required to change the vector from import dependency to import substitution. The solution to this is the diversification of the economy, expressed in the development of promising industries.

Third, the plan for the de-dollarization of the Russian economy involves transferring the placement of Eurobonds to the Russian stock market.

Fourth, there is a need to create their own independent payment systems. An example of this is the domestic payment system "MIR" (it was created in July of 2014) as an alternative to SWIFT.

Speaking about the practical implementation of economic policy, it should be noted that the "step-by-step" strategy of de-dollarization is reflected not so much on paper as in reality. For example, from the 1<sup>st</sup> April of 2019, Tehran and Moscow switched to mutual settlements in national currencies.

In addition to international economic cooperation, domestic policy is yielding results. The latter are mediated by the fact that the Russian Central Bank massively buys gold, thereby increasing foreign exchange reserves through the sale of American treasuries, previously acting as a "liquid" asset. The measures are precautionary, i.e., in case of "freezing" of assets of national credit and financial institutions by the American authorities (part of the savings of commercial banks, as well as the Central Bank deposited in the accounts of credit and financial institutions in the United States), Russia will have the opportunity to "reinsure" gold. That is, if the Western sanctions at the initiative of Washington acquire the character of "draconian", as it was, for example, with Iran, then due to the "monetary" gold of the Russian Federation will be able to protect the national economy from the currency exchange rate fluctuations in the world currency market.

The trend towards the formation of national reserves in gold was established in 2014. However, back in 2005, Vladimir Putin instructed all gold-visiting companies to increase their national gold and currency reserves by 10% annually. If in 2005 the volume of reserves of the "yellow metal" was estimated at 300 tons, in 2019 - 2070 tons. However, not only Russia is increasing its reserves, China, Kazakhstan, Turkey, Iran and many other countries are doing the same.

### 3. Conclusion

In General, the idea of partial "abandonment of the dollar" is conditioned by protective measures in case of new sanctions. However, in order to achieve the latter, it is necessary first of all to restructure the economy, which has been a priority for many years. Tactical measures developed by the Russian financial authorities can give impetus to the process of de-dollarization, but fundamentally only strategic changes in the national economy can solve this problem [6]. Therefore, it is impossible to talk about the principal solution of the problem of de-dollarization. Moreover, the strategy of "abandoning the dollar" is designed for 5 years, which is relatively small for such a large-scale economic transformation. Nevertheless, a beginning has been made. Tactical measures developed by the Russian financial authorities can give impetus to the process of de-dollarization, but only strategic changes in the national economy can fundamentally solve this problem.

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