



# Study Guide

## World Bank



### Agenda:

**Discussing the Need for a New  
Global Reserve Currency with a Special  
Emphasis on Cryptocurrency**

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## LETTER FROM THE BUREAU

Dear Delegates,

It is our utmost pleasure and honor to welcome you to the first iteration of the Shishukunj North Campus MUN 2023. We cannot wait to begin what is sure to be one of the most stimulating and fun conferences ever!

The agenda for the committee, “Discussing the Need for a New Global Reserve Currency with Special Emphasis on Cryptocurrency,” has been set to allow delegates to come forward with innovative solutions to solve real-world problems. In committee, rather than only prioritizing your individual countries, we would like all of you to be diplomatic and pave the way for solutions that will help the committee to arrive at a consensus.

We expect the delegates to go through the ROP and the study guide thoroughly. Although the study guide is comprehensive, we urge you not to confine yourself to it, as it does not cover all the probable areas of discussion. When researching, go beyond the guide and use it only as the basis for your research.

We hope that all of you will participate enthusiastically and make this conference worthwhile. We hope to give you an exceptional experience at this conference. So it's time to pull up your socks and get ready to dive deep into intense debating. Looking forward to meeting you all!!

All the best!

Arham Bandi (Chairperson)

Akshay Iyer (Vice-Chairperson)

Akmal Bunglowala (Vice-Chairperson)



## KEYWORDS

**Exchange rate volatility** - Exchange Rate Volatility refers to the increase or decrease of the value of one currency when compared to the value of another currency. This may affect profit or loss in the International Market.

**Gold Standard-** Gold standard was a method of supporting the value of a currency by pegging it to gold

**Correspondent Bank-** The Bank that acts as the middleman in international transactions.

**Exchange Rate-** The rate at which one currency will be converted into another currency (Example - 1 USD is converted to 82.832 INR).

**Forex Market-** Forex Market or Foreign Exchange Market allows individuals to buy, sell or convert local currencies to foreign currencies.

**Legal Tender-** It is anything by which you can legally pay off debts.

**Ledger-** A ledger is a collection of financial accounts and transactions.

**Initial Coin Offering(ICO)-** ICO is a type of fundraiser for cryptocurrency companies where they sell some of the currency to get money.



**Payment Imbalances:** Fluctuations in export earnings may lead a country into a state of payments imbalance which means being in a deficit with another country

**Decentralization:** The transfer of control and decision-making from a centralized entity (individual, organization, or group thereof) to a distributed network.

**Monetary Policy:** Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth

**Cryptography:** Cryptography is a method of protecting information and communications through the use of codes so that only those for whom the information is intended can read and process it.

**Remittance Market:** the transfer of funds between parties as a bill, an invoice, or even a gift.

**Liquidity:** the ease with which an asset can be converted to cash without necessarily affecting its market value.



## INTRODUCTION

Reserve currencies are those currencies that can be used for international payments, investments, and other aspects of the global economy. In 1971, the US unilaterally abandoned the gold-dollar parity established in Bretton Woods. Since then, the world has been governed by an international monetary system based on an entirely depository US dollar.

The greenback lacks what should be the essence of reserve currencies: a stable value. The dollar has no longer seemed like a good store of value for foreign reserves; its value has been volatile and subject to secular decline. It has contributed to the generation of payment imbalances, which can be seen in the recessionary periods of the world economy. The need to change the global reserve system has become a topic for global policy debate, with proposals being made by the Commission of Experts convened by the President of the UN General Assembly on the Reform of the International Monetary and Financial System.

Countries are looking into alternative reserve assets that are scarce and cannot be affected by third-party forces. Decentralized currencies like cryptocurrency can play a good role in the development of new assets. The cryptocurrency blockchain structure is secure, immutable, and unbiased. Cryptocurrency as a future reserve currency will remove the influence of third parties controlling the structure and regulations, essentially weakening their monopoly on the global reserve asset.

The aim of this committee is to discuss and deliberate upon the existing international monetary and exchange rate system and subsequently develop a new secure and immutable global reserve asset similar to the framework of cryptocurrencies.



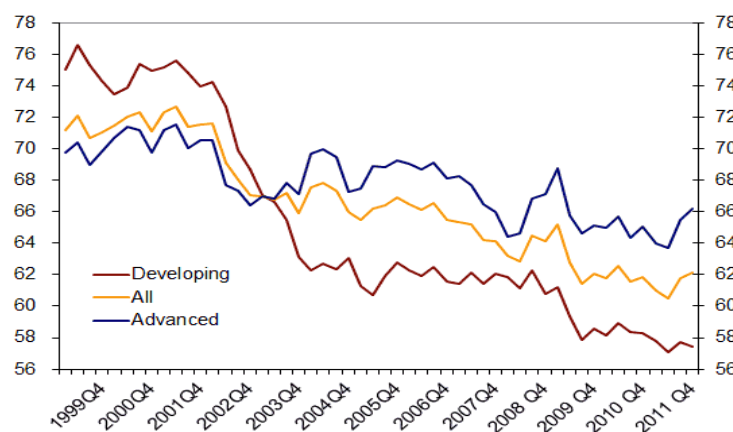
## RESERVE CURRENCY

Reserve currency is a foreign currency that central banks or other financial organizations hold in large amounts as part of a country's foreign reserves. These currencies mainly serve a purpose as a medium of exchange in the international market and foreign investments are also generally done in these currencies. A large number of commodities, such as gold and oil, are priced and traded in a particular reserve currency, causing other buying nations to hold this currency to pay for these essential commodities.

A currency is accepted as a reserve when it is from a country with considerable economic growth and size and free and liquid financial markets. The country also must have a significant presence in the geopolitical world and global markets, with its policy encouraging the use of its currency for trade. Besides, a stable and easily convertible currency are other factors for describing a reserve currency.

The International Monetary Fund (IMF) recognizes eight major reserve currencies: the Australian dollar, the British pound sterling, the Canadian dollar, the Chinese renminbi, the euro, the Japanese yen, the Swiss franc, and the U.S. dollar. The U.S. dollar is the most commonly held reserve currency, making up more than 60 per cent of global foreign exchange reserves. As a result, countries closely monitor the monetary and fiscal policy of the United States of America to make sure that the value

of their domestic currency against the greenback (US dollar) is not adversely affected by inflationary or recessionary periods.<sup>1</sup>



<sup>1</sup><https://www.piie.com/blogs/realtime-economic-issues-watch/dollars-decline-reserve-currency-and-emerging-multicurrency>



## **The Role of The Reserve Currency In The International Market**

A reserve currency plays a huge role in the functioning of the international monetary system and international trade. A country exchanges its currency for a particular reserve currency to do trade. This exchange mitigates the risk of exchange rate volatility. Reserve currency plays numerous roles in the international market: it helps facilitate global transactions, including investments and international debt obligations. A large percentage of essential commodities like oil and gold are priced in the reserve currency, causing countries to buy and hold this currency to pay for these goods.

Holding a reserve has numerous benefits, like it helps weather economic shocks, pay for imports into the country and receive money for exports, pay debts, and moderate the value of the nation's domestic currency. By exchanging currencies on the liberal market, a central bank can influence the value of the domestic currency, this moderation of currency is used to provide stability and maintain investor confidence during recessionary periods. For instance, if the value of the Indian Rupee starts to fall during a recessionary period, the Reserve Bank of India can step in and sell its foreign reserves to increase the Rupee's value.

Most countries want to hold their foreign reserves in a currency with a large, extensive and open financial and trade market since they want to ensure access to their reserves in a moment of emergency. Many Central banks often hold the dollar as the major foreign reserve in the form of government bonds, such as the U.S. Treasuries.

The status of being a reserve currency has been called the “exorbitant privilege” of that country. Economists believed that the world's need for reserve currency has provided cheap financing for the nation's investment abroad. Such demand for the currency helps the nations to issue bonds/treasuries at a lower cost, since higher demand means it doesn't have to pay as much interest to attract buying nations, which helps to keep the Nations' external debt down.

Being a reserve currency also increases the power of the country's financial sanctions on other countries. Almost all trade done in their currency, even trade among other countries, can be subject to financial sanctions. By cutting off the ability to transact



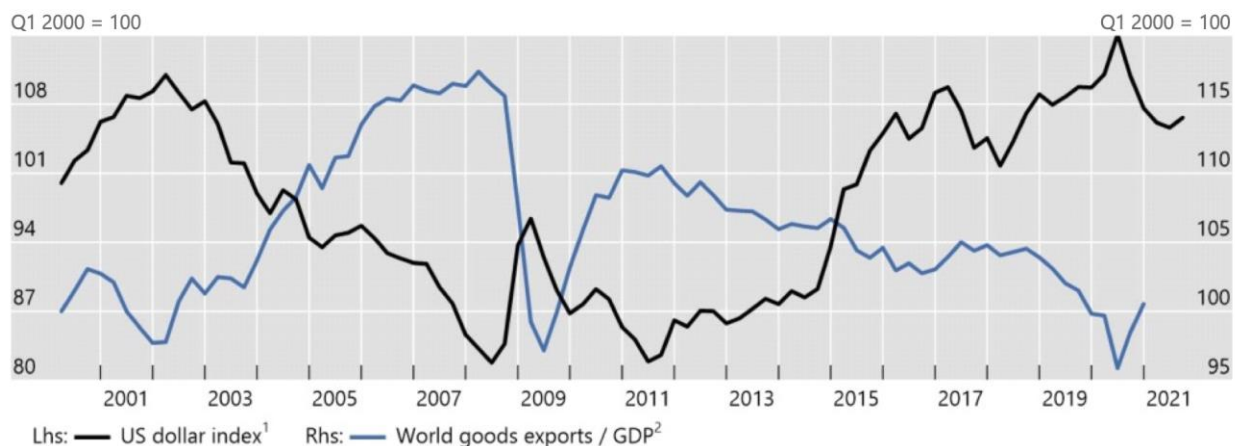


in their currency, the country makes it difficult for those it blacklists to do business. In 2015, the French bank BNP Paribas was given a record penalty of nearly \$9 billion for violating U.S. sanctions by processing dollar payments from Cuba, Iran, and Sudan.

Some economists warn, however, that the aggressive use of sanctions threatens currency hegemony. For example, After the Donald J. Trump administration unilaterally reimposed sanctions on Iran in 2018, other countries, including U.S. allies France, Germany, and the United Kingdom, began developing an alternate, dollar-free system to continue trading with Tehran. More recently, Russia and China have reduced the use of the dollar in their trade with each other.

The heightened demand for the reserve currency increases its value, but this comes at a cost. A stronger currency makes importing goods cheaper and exporting more expensive, which can hurt the domestic and locals that export their goods abroad and lead to unemployment.

The Nations with reserve currency can also be harmed by currency manipulation by another country. A country that is running a trade surplus with a country having its own currency as a reserve can face pressure to let its currency appreciate, making its goods more expensive and thus leading to fewer exports. For example, In 2012, when global reserve growth was high and many countries were intervening heavily in the foreign exchange market, economists found that foreign currency manipulation caused the U.S. trade deficit to increase up to \$500 billion per year, resulting in five million lost jobs.





## **The Dominance of The Dollar As The Reserve Currency**

The US dollar has always played an outsized and important role in the global currency markets. It is still considered the world's reserve even as the American economy's share of global output over the last two decades continues to shrink. It is thus important that we know the dominance of the dollar in the Global market. The dollar has functioned as the world's reserve currency since World War II. Today, central banks of nearly all countries hold about 60% of their foreign exchange reserves in dollars. About half of the international trade is done in dollars, and nearly all big international loans and global debt securities are denominated in dollars. In foreign exchange markets, where currencies are traded, dollars are involved in nearly 90% of all transactions. Investors consider the dollar as a "safe haven" currency during major economic crises. There are three main reasons why the US dollar could not be challenged in the global market:-

1. The World has confidence in the American Economy, and thereby the US dollar

The US has the world's largest and most liquid financial markets. The large size of the US economy, the strength of the US economy, liberal trade and global capital flows, with very few restrictions than a lot of countries, helps the United States to impose its currency in the global market.

2. The US is willing and maintains a massive trade deficit with other countries

Americans imported \$3.3 trillion in goods from foreign countries in 2022. However, exports from the US were nearly \$2.1 trillion in 2022. That's a big trade deficit that the American Government is willing to maintain, so as to let foreign nations hold onto a lot of US dollars that it needs to put somewhere in the global market thus increasing circulation.

Historically The US dollar has been dominant in trade and international finance

## The Rise of Non-Traditional Currencies

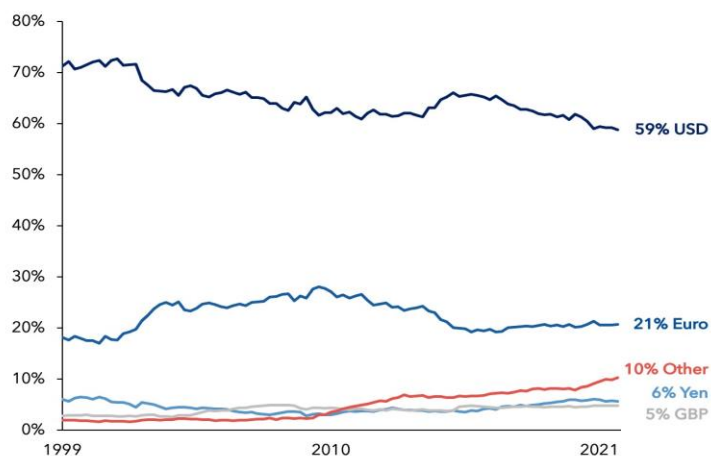
Even though the dollar has been predominant in the global market, new nontraditional currencies are gaining popularity and thus entering the reserve currency market. In an example of the broader shift in the composition of foreign exchange reserves, the Bank of Israel recently unveiled a new strategy for its more than \$200 billion of reserves. Beginning this year, it will reduce the share of US dollars and increase the portfolio's allocations to the Australian dollar, Canadian dollar, Chinese renminbi, and Japanese

yen. Countries have now started to collect the currencies of smaller economies that haven't been traditionally prominent in the global trade market but are emerging players, such as the Australian and Canadian dollars, Swedish krona and South Korean won, which are now gaining popularity and nearly account for three-quarters of the shift from dollars.

### Currency composition

Nontraditional currencies have played a larger role in global foreign exchange reserves in recent years.

(currency composition of global foreign exchange reserves, percent)



Sources: IMF Currency Composition of Official Foreign Exchange Reserves (COFER).  
Note: The "other" category contains the Australian dollar, the Canadian dollar, the Chinese renminbi, the Swiss franc and other currencies not separately identified in the COFER survey. China became a COFER reporter between 2015 and 2018.

IMF

There are many explanations that may explain the movement into non-traditional currencies:

1. These currencies generally give higher returns with relatively lower volatility.
2. Most of the new rising currencies can be termed commodity currencies: -

For example, Australia and Canada (which are rising non-traditional currencies) are large commodity exporters and their currencies are known to have robust power in predicting global commodity prices.



3. The growing role played by non-traditional reserve-currency issuers in the global economy i.e., increasing trade and financial linkages of these countries to the world also play an important role.
4. The last possible explanation could be that the rise in non-traditional reserve currencies is associated with concerns about a possible rise in credit default risk among traditional reserve currency issuers which is comparatively higher as compared to non-traditional issuers.

There are also many repercussions of using non-traditional currencies. The nontraditional currencies fluctuate widely against the dollar. The lack of large, deep and liberal financial markets still limits the potential of non-traditional reserve currencies to become truly major reserve units, going forward.

### **The Fall of The Greenback as The World's Reserve Currency**

Throughout history humanity has witnessed several changes in the economic and social sphere. The rise of the dollar gives a good example of the change in the reserve currency hierarchy from the euro to the dollar. Although this rise certainly had to come to an end. The US dollar has become less dominant, and the US dollar's value share of foreign exchange reserves has declined from 71 per cent at the end of the first quarter of 1999 to 62 per cent at the end of the fourth quarter of 2011, an average of three-quarters of a percentage point a year.

The world is going through an upheaval on multiple fronts be it a recession or an ongoing war which is leading to trade disruptions, many of which are due to the US' unchecked unipolar supremacy and ideology being challenged by other nations which thus challenges the dollar's primacy as the world's reserve currency.

Sanctions imposed by the US and its allies against Russia — made many nations less willing to hold on to the dollar. After the Russian invasion of Ukraine last year, Western nations largely cut off Russia from the world financial system, declining them access to exchange portals like SWIFT and freezing its currency reserves, forcing Russia to rely more on the yuan.

The use of the dollar's reserve currency status by the American Government to wage an economic war via sanctions and its monetary and fiscal policy decisions which have led to the increase in inflation in other countries, the collapse of big



Multinational banks in the US— have led to increasing calls for de-dollarisation in several countries around the world

Talks of de-dollarisation have been going on for decades and have now been recently in the news. The desire among developing countries for a stable, politically neutral, decentralized currency has always been present, but it has never materialized and so the main objective of this world bank meeting would be to develop the framework of a new reserve currency that serves the purpose of an international medium of exchange and provides developing countries with a stable currency for their foreign reserves.



## THE INTERNATIONAL MONETARY SYSTEM

A reserve currency is said to be a currency which is used widely in international trade. So, before we even talk about the future of reserve currency, we must know the previous steps that were taken by the global community to make international trade and monetary transactions easy. Therefore, we are going to talk about the international monetary systems and tools that were used throughout the ages to determine the values of different currencies for easy and safe international transactions. These include the Bretton Woods System, The Exchange Rate System and transactions done using global reserve currencies via the SWIFT network.

### **Bretton Woods System**

The United Nations Monetary and Financial Conference which was held in 1944 in the city of Bretton Woods, New Hampshire was attended by delegates from 44 countries. The countries aimed to create a new global economic framework and global cooperation which was needed for countries to recover from the aftermaths of World War II. This Conference led to the creation of the World Bank, The International Monetary Fund (IMF) and The Bretton Woods System.

The Bretton Woods System was a system that was used to determine the value of a currency in the Global Market. Under this system, the value of the US Dollar (USD \$) was linked to the value of gold (\$35 for an ounce of gold) and further, the value of other currencies was linked to that of the dollar. The 44 countries that were part of the conference were given the responsibility to maintain the decided exchange rate between their currency and the USD. This was done to promote international trade and more efficient foreign exchange among countries by reducing exchange rate volatility.

The Bretton Woods System saw its decline in 1971 when the United States of America found itself low on gold reserves and had to devalue the dollar due to which the people started to convert all their money into gold which further caused a shortage of gold reserves. Due to this, the government had to suspend the free conversion of the dollar into gold. As the convertibility of the USD into gold was the center of the Bretton Wood System, when it was paused, the system collapsed.



## Swift

Society for Worldwide Interbank Financial Telecommunication or SWIFT is a cooperative society which was formed in the year 1973 when 239 banks of 15 different banks came together to solve the problem of cross - border transactions which was created after the fall of the Bretton Woods System. It was set up in such a way that transactional data is easily understood and is not hindered by differences in language or system boundaries. It also aimed for smooth and automatic communications between the users. Although not a system for international transactions, it gave a very good medium for the same. Due to this reason, it was very popular since its inception. Supporting the statement around 10 million messages (financial telecommunications) were sent through the network only 6 years after it was founded.

SWIFT uses the correspondent bank system for international transactions. The correspondent bank system has 3 major entities-

1. Debtor
2. Correspondent Bank
3. Creditor.

The debtor or in simple terms the payer sends money in their own currency to the correspondent bank which converts it to the currency desired by the creditor and completes the transaction (This process is often done using agents.).

Due to the system of transactions using SWIFT, the global reserve currency, namely the US Dollar, gains more importance as most of the trade is carried out using it. This gives an unfair advantage to the US as manipulation of the value of its currency risks the collapse of global trade- Therefore, affirming the need for a decentralized global reserve currency.





## **The Exchange Rate System and the Need for a New International Monetary System -**

Exchange rate system refers to the method with which the exchange rate of a currency is decided. Mainly they are affected either by the market or it is manipulated by the central banks of the respective countries. There are 2 types of exchange rate systems

1. **Floating Exchange Rate** - Currencies which adopt this system are affected by the relative supply and demand for their currency in the forex market. This system requires minimal interventions from the central banks but, if the value of the currency becomes very high or low the central banks may intervene. Because the value of a currency is affected by the relative supply and demand, it can also show economic strengths. The downside of a floating exchange rate is that the currency becomes volatile. This may demotivate investors due to frequent changes in the value of the currency.
2. **Fixed Exchange Rate** - Currencies which adopt this system are linked to the value of another currency or to some valuable commodity (oil or gold). This is done to tackle the volatility which comes in the forex market. A primary example of this is the Bretton Woods System as it linked many currencies to gold directly or indirectly. The flip of the coin is that this system may hamper economic growth as the value of a currency also affects interest rates in a country which are crucial for development.
3. Some countries don't have a currency of their own but they use other currencies as their legal tender.
4. Another interesting way of controlling the exchange rate is employed by Japan. The Bank of Japan and the Ministry of Finance of Japan often intervene in the exchange rate of the Japanese Yen by buying or selling foreign Currency. This therefore changes the amount of Yen in circulation and thus changing the overall exchange rate of the Yen. This is an integral part of the Japanese constitution (Article 7, Section 3) and is called Exchange Rate Intervention or Dirty Float.





These systems can be very unreliable for developing countries as they need stability, foreign investment and change in interest rates to become developed. By virtue of all the above-mentioned points, the World Bank feels a serious and urgent need for a new International Monetary System.



## CRYPTOCURRENCY AS A RESERVE CURRENCY

A cryptocurrency is a type of digital currency in which monetary transactions are verified and maintained by a decentralized system using cryptography, rather than by a centralized authority, that keeps the information of the transaction encrypted. People in Developing countries are the biggest users and miners of cryptocurrencies due to their huge popularity in the remittance market. The World Bank estimates that migrants' remittances to family or friends in their home countries can reach 20%, even 40% of some developing countries GDP.

It was reported that more than 1 in 10 working-age internet users now own some form of cryptocurrency, as stated in the Digital 2022 Global Overview Report. This ratio was higher across developing economies, especially in those nations where domestic currencies are prone to fluctuations in the exchange rate system. Current reserve currencies are controlled by the big powerhouses of the world and put developing countries at a disadvantage.

The unique opportunities that cryptocurrencies have for enhancing people's economic freedom globally can be used to explain their growing popularity in developing nations. These opportunities stem from three key features of cryptocurrencies: their accessibility, their quick and inexpensive transactions, and finally, their capacity to combat corruption that may be caused by centralisation and weak national currencies.

### **Blockchain Technology-**

Blockchain is the primary technology that is used in the functioning of cryptocurrencies. It is basically a type of distributed ledger. A distributed ledger connects multiple individual systems that have ledgers of their own. This makes distributed ledger super safe as any change within the network must be in consensus with all the systems. So essentially, for 1 Bitcoin to exist it must be confirmed in multiple systems and for it to be transferred to another account, all the systems must confirm the transaction for it to be done. (Note: Distributed ledgers are a type of Decentralized Ledgers)

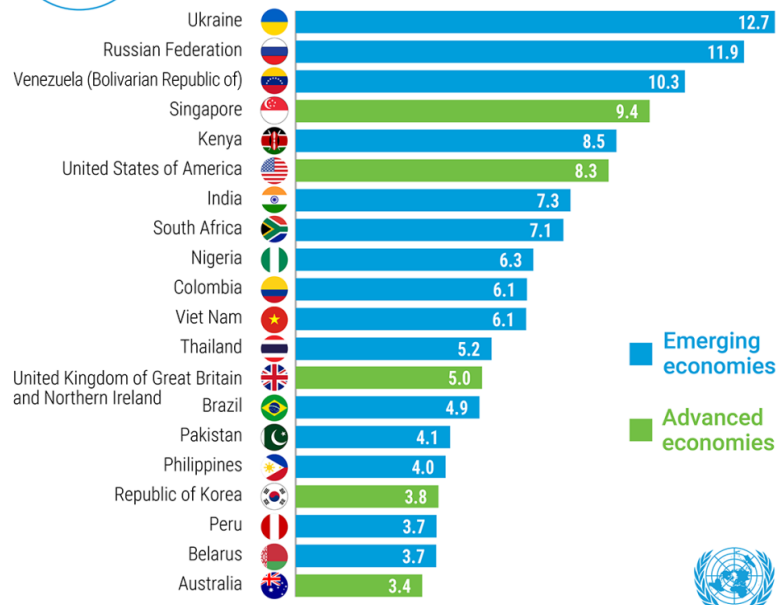
In Cryptocurrencies, the blocks are ledgers which mean that every time a new event happens (transactions or mining) a block is added to the already existing blockchain.

(Note: The New block contains all the data of the previous block and the new data)



### Share of the population that owns digital currency: Top 20 economies, 2021

(Percentage)



## The Volatility of Cryptocurrency

One of the greatest selling points of fiat currencies is that they are stable. Fiat money is controlled by the government. This control allows the government to be more flexible with its management of the currencies, which proved to have been necessary after the fall of commodity-backed currencies in the past. Fiat currencies also allow the government to establish economic policies to further stabilize the currency.

On the other hand, cryptocurrency is decentralized. It is not controlled by any single party and is usually community driven. However this becomes an issue as there is no regulation, and the volatility of the assets becomes high. Cryptocurrencies are also small markets compared to other stocks which results in high fluctuations after a relatively small investment. Cryptocurrencies are also frowned upon because of the lack of liquidity. The combination of extreme volatility and minimal liquidity becomes dangerous and undesirable.



Examples of this high volatility are seen everywhere. Bitcoin, for example, is notorious for its unprecedented surge and depression. In November 2021, its price reached well over 65000 USD before falling to just over 20000 USD after a year and a half. Ethereum, the second most widely used cryptocurrency, has reportedly been more volatile than Bitcoin by a staggering 30%.

## Regulation of Cryptocurrencies

Everything comes with its advantages and disadvantages. In the case of Cryptocurrencies, they provide a decentralized and a quick and easy way to exchange money which might make it a good choice for some people but its extreme volatility and the fact that privacy is minimal makes it objectionable. Currently the regulations for cryptocurrency are not uniform across all the countries and in many countries they are not very well defined. Let's look at countries which have taken varying measures to regulate cryptocurrencies:

1. El Salvador -  
El Salvador was the world's first country to accept a cryptocurrency (bitcoin) as their legal tender. Therefore, cryptocurrency is treated like a normal currency. Salvadorians can pay for goods in bitcoin and they are also taxed on these transactions.
2. China-  
China is on the other end of the spectrum. China in 2017 outlawed all cryptocurrency transactions within its borders. Initial Coin Offerings were also outlawed as they were considered illegal public fundraising. Replacing cryptocurrencies with a digital currency of their own.
3. Another method is to make Cryptocurrencies legal (not legal tender) and implement various regulatory actions. Many countries have followed this method including the United States of America, Singapore, The Netherlands, etc. In Canada, Cryptocurrencies are regulated by securities regulators under the various security laws. The regulation has been further secured with the introduction of a pre-registration process which is also followed by several countries.
4. Lastly, several countries including India, UAE, the USA, China, etc. have launched their own digital currency pilot projects. These digital currencies are



controlled by the central banks. Their objective is to have swift transactions and make them cheaper.

These efforts may very well improve the liquidity of cryptocurrencies and control their volatility to a certain degree but not enough. Volatility will still remain a big issue. One possible solution that has come up is Stablecoins. Stablecoins are basically cryptocurrencies that have a comparatively stable price by being pegged to a commodity or a currency. It can also be stabilized by controlling its supply via an algorithm. Tether(USDT) and TrueUSD(TUSD) are examples of stablecoins backed by the US dollar. There also exist Crypto-Collateralized Stablecoins which are backed by other cryptocurrencies. Because of the high volatility of cryptocurrencies, these coins are kept in such a way that the crypto reserves have a higher value than the stablecoin itself thus reducing the damage caused if the value of crypto falls, i.e., they are over-collateralized.

### **Central Bank Digital Currency**

In the light of Cryptocurrency's growing popularity, its legalization became imperative but its volatility and poor liquidity turned into major obstacles. But many countries are slowly transitioning to digital currencies with the help of Central Bank Digital Currencies (CBDCs).

CBDCs are basically centralized digital currencies issued by the country's national Banks. It goes against the ideals of cryptocurrencies but it tackles some of the issues with both cryptocurrencies and fiat currencies. Firstly as it is a digital currency, a CBDC can be transacted quickly and with ease. Secondly, as these are issued by the country itself, the risk of liquidity drops significantly. Lastly, the problem of high volatility that most Cryptocurrencies have can be resolved by this method. The control that the central banks have on the CBDCs can help them release monetary policies and effectively control their stability.

There are 2 main types of CBDCs, Wholesale CBDCs and Retail CBDCs.

1. Wholesale CBDCs are CBDCs issued to financial institutions for wholesale transactions. They are also used for interbank transfers and for cross-border transactions of the central banks. These CBDCs can act as reserves held by the central banks.



2. Retail CBDCs are basically the digital version of everyday currency and are intended for the use of retail purposes. Retail CBDCs are further bifurcated into token-based CBDCs and Account-based CBDCs.
  - Token-based CBDCs function like regular money, wherein the occupant of the token becomes its owner. This allows for the users to perform anonymous transactions.
  - Account-based CBDCs require the formation of accounts, identification of the asset holders and maintaining the record of the transactions.

Around twenty countries have already released their pilot projects for CBDCs which include Australia, Brazil, India, Japan, China, etc. According to the IMF (International Monetary Fund), 'Over 40 countries have approached the IMF for assistance through the CBDC Capacity development (CD).' Many countries have made incredible progress in CBDCs. Some countries are in the proof of concept phase of their CBDCs. Many cross-border projects like Project Jura started by the national banks of France and Switzerland have surfaced as well.

As every coin has 2 sides, CBDCs too with their advantages have their fair share of disadvantages. Even though monetary policies may be implemented their effectiveness will still remain a big issue in such a system. Secondly, the risk of cybercrime will be high, as seen in several cryptocurrencies, many hackers will be easily attracted by the idea of a digital currency by the central banks. Lastly, anonymity is offered in just a certain type of CBDCs thus putting a risk at privacy and will become a point of disinterest for people and businesses looking for anonymous transactions.

### **Special Drawing Rights**

Special Drawing rights or the SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The Creation of the Special drawing rights was due to the losing confidence in the dollar as a strong currency. The IMF created a synthetic reserve asset as a supplementary currency to buy gold. Its price was fixed in terms of gold at exactly the same level as \$1 so  $\text{SDR1} = \$1$ . Because of a continuing disagreement over whether the new reserve asset should be considered money or credit, it was given the anodyne name, Special Drawing Right. Many believe that the future role of the SDR is to make it the center of the international monetary system, as proposed in the Committee of Twenty (C-20). The C-20 argued that this



implied making it the principal reserve asset. They wanted it to be the *prima facie* in the international monetary system i.e. every reserve of the country will be held in SDRs. This implies some form of asset settlement: requiring countries that acquire reserve currencies to convert these into SDRs rather than to hold onto them since otherwise the total reserve stock would be influenced by the reserve-composition policies of the country of the reserve currency. This meant that it would be necessary to create a substitution account to allow countries to convert their reserve-currency holdings above some limit into SDRs. The C-20 also declared that the SDR would be the numeraire, in terms of which each currency would express its central value (just like the dollar in the modern world). SDR has since been used mainly in the prosaic role of providing a unit of account for its issuer, the IMF. SDRs were issued in 1970–72 and 1979–81, and a new issue intended to equalize holdings relative to the IMF quotas of all members was approved by the members in 1997 but has never been ratified.



## NEED FOR A NEW GLOBAL RESERVE

The U.S. dollar has been the dominant reserve currency since the Bretton Woods Agreement in 1944, but its status has been challenged by some countries and experts who argue that it creates imbalances and risks for the global economy. Since the beginning of the century, the dollar has lost its credibility as a good store of value; its value has been volatile and the power it holds in international trade has been misused. The benefits of having an actual global currency could include reducing exchange rate volatility, enhancing financial stability, and promoting global cooperation. There is also one final factor that has provided a new reason for the making of a new reserve currency: the newly issued reserves could provide a convenient way of helping finance plans to reduce climate change and their successful mitigation in developing countries. Newly created reserves can help fund “global public goods,” including expenditures related to climate change and development.

There are two paths that countries could take to replace the dollar as the world’s reserve. First is to create a new global reserve system, or to just move from the dollar-based system to a non-traditional currency reserve system, which could be even more unstable and volatile. This committee’s aim however is to look at the creation of a new global reserve system (preferably a digital currency)

There are a variety of alternative forms that a new global reserve system might take and a variety of ways by which the transition from the current system to the new one might be accomplished. The alternatives differ in the rules by which the global reserve currency will be distributed, and their institutional structures.

1. The least ambitious form is a simple extension of the current system of special drawing rights (SDRs) within the IMF, which are issued rarely. Under the new system, they would be issued regularly and in larger amounts.
2. The most ambitious form is one which develops a whole new digital currency that:
  - a) allows the amounts to be issued to vary with the state of the global economy so that the issuance of the global reserve could be used as a tool





- of macroeconomic policies to stabilize the economy in recessionary periods;
- b) allows the funds to be used for the pursuit of global public goods, like development and climate change;
- c) creates either a new institutional structure or gives its control to an international unbiased organ to administer the new global reserve system

We strongly believe that it would be desirable to move towards the more ambitious frameworks, which simultaneously address the central problems posed by the dollar reserve system as well as other key problems in globalization. Economists have also argued for a system that taxed surplus countries. This could be implemented by reducing the allocation of new reserves to countries with persistent surpluses. These amounts could then be reallocated, e.g. for climate change or development.

The transfer and buying of these reserves would pose a greater problem than their formation. Thus we expect the committee to lay out specific rules for the transfer, allocation, framework and buying of this new reserve along with an issuing and regulatory body, a new exchange rate system and preferably also develop a new exchange platform for the transaction of this currency which would be unbiased and free from unfair misuse.

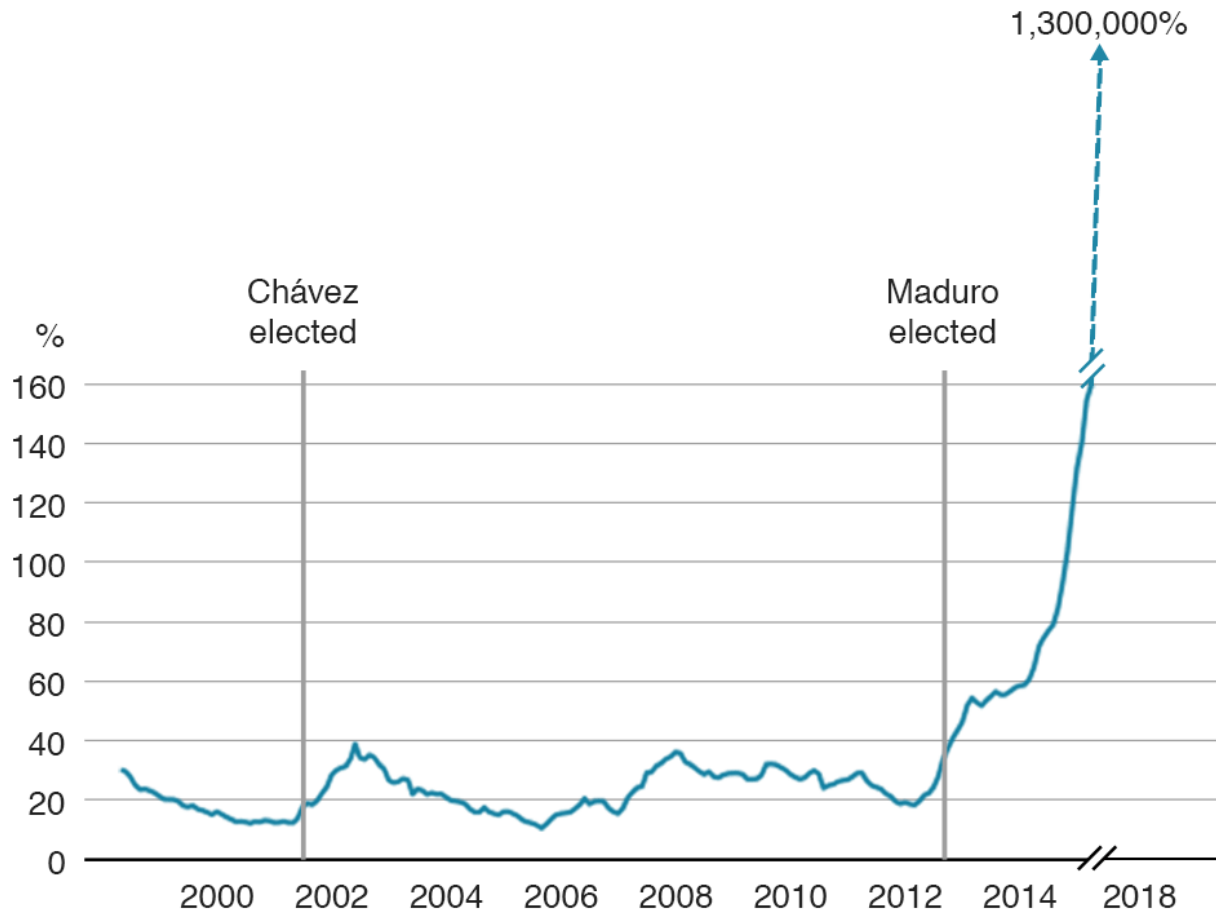


## CASE STUDY: VENEZUELA

From the year 1999, Venezuela was ruled by Hugo Chavez until he died in 2013. Chavez was known to be one of the most influential and controversial politicians in South American history. After him came Nicolas Maduro. During their rule, their party gained control over many of the important institutions like the judiciary, the supreme court and the electoral council. Venezuela depended majorly on its oil reserves for its revenue. Between mid-2014 and early 2016, the oil prices cumulatively fell by 70%, this was one of the largest price declines globally in modern history. This crippled the Venezuelan economy. Hyperinflation was seen and even the most basic of commodities saw shortages. This led to one of the biggest refugee crises globally. In the elections of 2018, even after the continuous protests, Maduro won but the elections were said to have been unjust. This led to the opposition parties coming together against Maduro. The opposition was led by the speaker of the Venezuelan national assembly, Juan Guaido. Mr. Guaido was supported by many including the national assembly and 50 countries like the US and the UK. But Maduro firmly stayed in charge of the country with the support of the military and countries like China and Russia. This led to US sanctions on the country tightening and led to hardship in access to foreign currencies and oil exports. In 2019 some of the foreign currency regulations introduced by former President Mr Chavez were withdrawn. This led to growth in the economy and ease of shortages. During the reign of Mr Maduro, the GDP of Venezuela fell by 40%. The inflation in the country may have been eased up by the recent growth but it is still one of the highest in the world. The inflation rate went from 21.07% in 2012 to a staggering 254.95% in 2016 after which there has been no information from the central bank.

## Venezuela's inflation spiked after Maduro's election

Estimate for 2018 is off the scale



Source: Bloomberg/Reuters estimate for 2018

BBC

During this time the Venezuelan bolivar suffered extremely. In 2013 about 4.5 Venezuelan Bolivars equaled 1 USD, but now approximately 2.6 million Venezuelan bolivars equals 1 USD. The high inflation rate, corruption and the limit set by banks on withdrawal daily forced many to find other methods for transactions. One of the most popular methods that the citizens came up with was cryptocurrencies. A 2020 report ranked Venezuela third in their crypto adoption index. Cryptocurrencies became a good tool for people to send remittances with ease, it helped the cash flow of businesses and protected wages. The popularity can also be associated with the low electricity bills leading to the crypto mining culture growing. However due to poverty, many cannot afford the equipment. According to President Maduro, '77% of the Venezuelan economy has been digitized' in 2020. The Venezuelan government launched a crypto token called



‘petro’ which was backed by the oil reserves, in 2018. The petro can be described as a mix of CBDC and Stablecoins. However, it resulted in a failure and locals refused to use it. But in October of the same year, Petro was announced as the legal tender but it remains very unpopular. In 2020, Venezuela legalized the mining of bitcoin and announced the granting of mining licenses and that all the mining activities must take place under the National Mining Pool (NMP) and the rewards will be distributed which are acquired from the mining. Those who operate outside the NMP will be penalized.

Seeing the crippled economic state of Venezuela, the introduction of a CBDC by the central bank could be one of the best steps. It can tackle the high volatility, skyrocketing inflation rates and can provide the citizens with the swift and low cost transactions that crypto currencies promise. But the inclination towards Cryptocurrencies, and their ability to do both national and international trade without any particular charge, and the loss of trust in the ability of the central government to stabilize the economy has led to the affinity of the citizens towards Cryptocurrencies and the Petro being rejected. If the recent economic growth continues, the Petro gains popularity and appropriate economic measures are taken, the crisis in Venezuela can surely be resolved.



## QUESTIONS A RESOLUTION MUST ANSWER

- Q. What would be the framework and exchange rate system of the new currency formed?
- Q. What real-world factors would influence the rate of the new reserve?
- Q. Who will regulate and issue the new Global Reserve formed?
- Q. What will be the criteria by which this new reserve is distributed among the member countries?
- Q. What would be the buying strength and power of the new reserve?
- Q. What would be the framework of the new exchange platform for the new currency formed?



## CONCLUSION

After reading this guide, we hope the delegates got a better understanding of the problem and realize the seriousness of the issue at hand. The bureau expects a high-energy and fruitful discussion from the committee as this topic concerns most countries in the world. The delegates are requested to not keep their research limited to the guide and to not plagiarize any of their speeches from the guides. We would strongly recommend the delegates to not use AI language models for research and preparation of their speeches. Delegates must come up with substantive solutions and particularly to the agenda a new framework for a decentralized and immutable reserve currency after effective brainstorming and research to tackle the problem, keeping in mind the betterment of all global citizens.



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