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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**THE IMPACT DIRECTIONS OF THE FORMULATION
OF THE INTERNATIONAL MONETARY ARCHITECTURE
ON THE NATIONAL ECONOMY**

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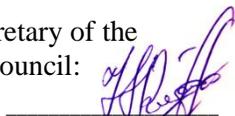
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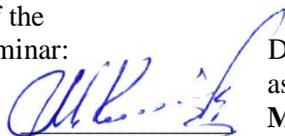
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INTRODUCTION

The relevance and study level of the research. The evolution of the economic relations is exposed to systematic changes in the current stage of the development history of the global economy. These changes exhibit themselves in the expansionary feature of globalization and as new system transformations stemming from global crises. These processes urge to shape national and supranational regulation frameworks in all segments of the global economy, e.g., the international trade system, international monetary architecture (IMA), global migration flows, etc.

In this regard, redesigning international monetary architecture and empowering multilateral cooperation mechanisms is one of the core challenges in global economic policymaking. The evolution of the IMA went through several stages under the shaping modern global economic system. However, a transition between these stages was not a smooth evolution process but was dominantly shaped under systemic volatilities. While various stages of the IMA partly contributed to maintaining global macroeconomic and financial stability, none of these stages did enable the formulation of sophisticated and long-term multilateral policy coordination mechanisms to eliminate exchange rate mismatches and neutralize external sector factors leading to volatility. The unavailability of setting and institutionalizing long-term rules in light of multilateral cooperation has led to the formation of the IMA principally as a chaotic order or architecture of relations rather than as a system.

In light of the increasing interdependence of national and global financial systems, not only the official reserves of countries and supranational institutions but also private capital and financial flows have gained more importance in the provision of global liquidity. While this situation allows the current account deficit in the balance of payments to be financed by more borrowing from global financial markets, it also disrupts economic policy discipline. Therefore, in light of the asymmetric distribution of current account disbalances, a chronic shortcoming of the IMA, global debt levels have skyrocketed in recent years in all segments. Current debt levels increase the necessity for liquidity leading to macroeconomic threats under the shortcoming of the

global reserve system.

While the national currency-based global reserve system provides some advantages for the issuers of this currency, it also leads to the Triffin dilemma. Despite increasing calls and initiatives to shift to the multi-currency global reserve systems, potential reserve currency-issuing jurisdictions' capacities (EU and China) is not yet compatible with the USA in terms of global political power and credibility, macroeconomic sustainability, and the development of the financial markets. As a result, expansion of floating exchange rates and private capital flows, asymmetric distribution of external sector volatilities, and non-existence of effective supranational regulatory frameworks make IMA one of the main threats to global financial and macroeconomic sustainability. Moreover, in light of increasing geoeconomic frictions, emerging “currency wars” originating from the economic sanctions implemented by numerous countries, including the “designers” of the current IMA, led by the USA, against Russia creates multifacet and geographical impacts while increasing the importance of this study.

These shortcomings of the IMA and new reform initiatives addressed to eliminate them give birth to new macroeconomic resilience and development challenges in the developing economies (DEs). In this regard, Azerbaijan, an economy preserving its transition features which also possesses macroeconomic and structural shortcomings usual to resource-rich countries (RRCs), confronts the impact of the structural changes of the IMA on the realization of its strategic development goals. The study assesses the various channels of these influences of the IMA on Azerbaijan's economy.

Proper identification of the sustainable development threats and structural and institutional vulnerabilities of the national economy and formulation of adequate policy frameworks are critical for shaping and implementing medium and long-term strategic reform agendas. In this regard, the study's relevance is associated with the problems concerning ensuring the sustainability of economic development both at macro and global levels.

There are two strands of research to understand the study's topic as it covers a broad scope. The first direction of studies analyzes the IMA as a whole jointly with its deficiencies and determines perspectives of its

future format changes. In this regard, R.Mundell, B.Eichengreen, E.Truman, P.Kenen, M.Obstfeld, J.A.Ocampo, E.Farhi, R.Mohan, J.Frankel, R.Solomon, R.Triffin, G.Halm, J.Williamson, and other scholars have explored not only current weaknesses of the IMA in its historical development context, but also principle contours of the reforms needed to be conducted under the impact of new format changes. The studies in the second direction analyze various components of the IMA and their macroeconomic effects. In this regard, M.Bordo, A.Schwartz, G.Adler, C.Duran, G.Gopinath, E.Boz, C.Reinhart, G.Bergsten, J.Gagnon have contributed economic literature by studying different aspects of central banking and monetary policymaking, as well as macroeconomic impacts of FX reserves. On the other hand, while S.Aiyar, E.Fernandez-Arias, R.Nurkse, and E.Helleiner have focused on the global liquidity provision and the problems of the global reserve system, R.Mosner, J.Aizenman, Y.Jinjarak, S.Kirchner, P.Subacchi have investigated supranational monetary institutions and international monetary cooperation issues. Finally, C.Borio, H.Shin, B.Csonto, H.Rey, P-O.Gourinchas and K.Habermeier have extensively analyzed international capital flows and credit cycles.

Among Azerbaijani economists, A.Muradov, E.Rustamov, R.Hasanov, Sh.Hajiyev, Y.Hasanli, A.Bayramov, A.Alakbarov, F.Gambarov, I.Ahmadov, Sh.Adigozalov, Kh.Abdullayev, A.Mehtiyev, and R.Agayev have researched the macroeconomic sustainability and development challenges, while F.Mustafayev, E.Huseynov, Sh.Gafarov, Z.Mammadov, B.Ahmadov, F.Hasanov, F.Huseynov, T.Karimli, R.Rahmanov, Sh.Mukhtarov, J.Mammadov, N.Guliyev, Kh.Aliyev and others have investigated the economic diversification and monetary policy challenges of Azerbaijan's economy. These studies mainly address the analysis of the development challenges of the national economy in macroeconomic contexts, but transmission channels of the IMA volatilities are not widely studied. In this regard, this research can be considered one of the very first academic research dedicated to investigating the formulation and development challenges of the IMA and the impact channels of its various components in Azerbaijan's economy.

The object and subject of the research. The research object includes contemporary international monetary relations and

development problems of the national economy. The research subject covers current shortcomings of the IMA and reform initiatives addressing to eliminate them, and also macroeconomic resilience challenges of the national economy in light of them.

Purpose and objectives of the research. The study's primary purpose is to identify the main reform challenges of the IMA in light of global format realignments and to assess the impact of these challenges on the sustainable development of the Azerbaijan economy. Below mentioned objectives are identified within the research:

- Identification of the main volatility drivers over the historical development stages of the IMA;
- Identification of the systemic reform challenges of the IMA and assessment of the impact of these challenges, based on their dynamic development perspectives, on national economies;
- Evaluation of the principal development perspectives and challenges of Azerbaijan's economy in the current reform stage;
- Analysis of the main transmission channels of the volatilities stemming from chronic and new format changes of the IMA to the national economy;
- Proposing recommendations complying with the strategic reform and development challenges of Azerbaijan's economy to ensure the resilience of economic development and strengthen macroeconomic sustainability.

Research methods. Theoretical and methodological interpretations derived from the studies, policy documents, and analytical reports prepared by economists, various academic centers, and international economic institutions constitute the theoretical-methodological base of the research. Moreover, state programs and other documents addressed maintaining economic diversification and development in Azerbaijan, and relevant legislative acts are used. Various economic analysis methods, including comparative and systematic analysis, induction and deduction, scientific abstraction, and statistical analysis are used in the study.

The main provisions for the defense. The assessments show that modern format challenges of the IMA lead to substantial changes in the structure of the global economy. On the other hand, the transmission

channels and scope of these challenges on the national economy can vary depending on openness, structure, and macroeconomic policy features in national economies. As a result of the study, the main provisions for the defense are below:

- The realization of the modern format changes of the IMA intensifies frictions between the sovereignty of nation-states and economic globalization in the global economic architecture. Nation states prefer to participate in the regional cooperation mechanisms rather than universal supranational institutions in neutralizing external sovereignty pressure under financial globalization;

- Structural challenges of the global economic system give birth to substantial changes in macroeconomic policymaking. These changes involve institutional (changes in central banking, widening coordination mechanisms between monetary and fiscal policies, etc.) and structural (increasing importance of macroprudential policy, the emergence of new financial institutions, etc.) features. These changes necessitate increasing the policymaking capacity to ensure the resilience of national economies against external shocks and participating actively in supranational cooperation arrangements bolstered with new mandates;

- Sustainable development challenges in Azerbaijan's economy necessitate implementing multilayered macroeconomic and structural policy measures. These measures should address completing the structural transformation and formulating adequate macroeconomic, particularly monetary policy frameworks for enabling long-term economic development. While IMA shocks do not have broad direct impact channels given the scale and structural features of Azerbaijan's economy, development challenges typical to transition and resource-rich economies make it necessary to conduct effective institutional reforms in economic policymaking.

The scientific novelty of the research are followings:

1. As a result of theoretical-methodological analysis of the evolution features, it is identified that core reasons for the challenges continuously observed in the IMA are – exchange rate mismatches, external sector volatilities, and their asymmetric distribution among countries, and shortcomings of the global reserve system and liquidity provision;

2. Current reform directions of the IMA and their potential macroeconomic impacts are analyzed in a broad specter. These studies show that realignments in the global reserve and liquidity systems significantly change the effectiveness of monetary and macroprudential policy tools and their impact on the economic cycles. On the other hand, the development of financial technologies creates new actors in monetary policy and financial intermediation while increasing the importance of supranational and regional institutions in the institutional governance mechanisms of the global economy;

3. The main monetary transmission channels of the volatilities stemming from IMA to Azerbaijan's economy are the exchange rate and balance of payments, and macrofinancial channels are dollarization and reserves of the State Oil Fund;

4. Procyclical monetary policy stance, dollarization pressure, and non-systematic macroeconomic policy coordination are domestic structural shortcomings shaping transmission channels to the economy;

5. Below-mentioned measures are recommended to restrict potential threats to the sustainable development of the national economy in the current phase:

- Implementing structural reforms by considering global trends, assessment of sectoral competitiveness, and supporting the sectors involving high-value generation potential;
- Enhancing institutional and functional capabilities of policymaking, implementing mechanisms to strengthen macroeconomic policy discipline, and ensuring effective, flexible, and result-oriented institutional coordination of fiscal and monetary policies;
- Strengthening the functionality of the interest rate channel and the monetary policy transmission mechanisms to the real sector;
- Enhancing financial intermediation and eliminating reasons for high costs (low savings, limited domestic and international financing opportunities) of access to finance;
- Restricting market failures resulting from government interventions by developing the private sector; as well as diminishing the fiscal burden of the government;
- Shifting from pegged exchange regime to managed floating one in light of current structural and reform challenges.

The theoretical and practical significance of the research.

Conceptual interpretation, assessment, and recommendations in the study possess significance for accelerating integration into the global economy, one of the strategic reform agenda items. Moreover, they can also support policymakers in formulating functional frameworks in line with economic processes. Research findings and recommendations can be helpful in the formulation of various aspects of macroeconomic policymaking and designing strategic reform documents. Research findings can also be used in think tanks and the curriculums in higher education institutions.

Approbation and application of the research. The main provisions of the research are depicted in the author's presentations at international and national scientific conferences, published articles, and monographs. Twenty-three articles, conference materials, and summaries have been published those cover research findings. Ten articles have been published in Azerbaijan, and the academic journals listed in international indexing systems published three articles. Furthermore, the author introduced research findings at ten international and two domestic conferences.

The name of the organization that the research prepared. The research was prepared at the Scientific Research Institute for Economic Reforms under the Ministry of Economy of the Republic of Azerbaijan (currently, the Economic Scientific Research Institute).

The structure and volume of the research. The research consists of 171 pages with an introduction (13 872 characters), three chapters having three sub-chapters in each (Chapter 1 - 61080 characters, Chapter 2 - 82165 characters, Chapter 3 - 77794 characters), a conclusion (14147 characters), 10 annexes, a list of 183 references used, and acronyms. The research consists of 249058 characters excluding annexes, tables, graphs, pictures, and a bibliography.

THE STRUCTURE OF THE RESEARCH

Introduction

Chapter 1. The Theoretical Grounds and Features of the Formulation and Evolution of the International Monetary Architecture

1.1.Theoretical Grounds of the Formulation of International Monetary Relations as an Economic Concept

1.2.The Factors and Their Features shaped the Formulation of the International Monetary Architecture

1.3.Specific Features of the Monetary Regulation in the Formulation Phase of the New Global Economic Order

Chapter 2. Main Directions of Restructuring Calls of Monetary Architecture in the Globalizing Economy

2.1.Contemporary Instabilities of the International Monetary Architecture and Their Features

2.2.The Necessity and Problems of the Strengthening Monetary Cooperation in the Global Monetary Regulation Mechanism

2.3.New Formatting and Power Shifting Trends in the International Monetary Architecture

Chapter 3. Main Impact Directions of the Changing International Monetary Architecture Challenges on the National Economy

3.1.Conditionality Imposed by the IMF Programs in Economic Policymaking in Azerbaijan

3.2.The Identification of the Main Impact Channels of the International Monetary Architecture Volatilities on the National Economy

3.3.Main Directions of the Sustainable Economic Development Challenges in Azerbaijan at the Contemporary Economic Stage

Conclusions

The List of the Used Literature

Annexes

Acronyms

BRIEF SUMMARY OF THE RESEARCH

In the **Introduction** section of the dissertation, the research's relevance is justified, and the research's study level, subject, purpose, and objectives are defined. This section also covers the theoretical and methodological base of the study, its scientific novelties, and practical significance.

In the first chapter of the dissertation, titled “**The Theoretical Foundations and Features of the Formation and Evolution of the International Monetary Architecture,**” the author has identified conceptual specifications regarding the IMA and analyzed the main contours of its evolution process. Throughout its historical development periods, IMA reflected the attempts to standardize general monetary policy frameworks implemented by individual countries. In the framework of international monetary relations predominantly labeled as a ‘system,’ countries use regular interventions to maintain their competitiveness and domestic stability. However, these regulatory frameworks among countries have been mainly fragmental.

This research shows that the approaches regarding the theoretical foundations of the IMA partially achieved to preserve their core conceptual frameworks. In the framework of the bimetallism standard that emerged in the 19th century, the setting of monetary relations among countries under specific rules or order was dispersed. While the Bretton Woods system, which emerged in the mid-20th century, possessed more features typical to a system, it failed to be sustainable due to its design flaws. In this regard, Bretton Woods was much more similar to the aggregate of arrangements reflecting the compromises shaped under the conflict of interests rather than a system¹. The problems concerning the harmonization of macroeconomic policies under effective international cooperation frameworks also explain why international monetary relations are not compatible with the concept of a ‘system.’

¹ Mundell, R. A Reconsideration of the Twentieth Century // The American Economic Review, – 2000, 90(3), – p. 327-340

Based on his research, the author has distinguished four stages in the evolution of the IMA based on its fundamental institutional and structural features: (1) the Gold Standard; (2) the Interwar Period; (3) Bretton Woods, and (4) Post-Bretton Woods.

During the Bimetallism Standard that existed before the Gold Standard, a broad money supply enabled the maintenance of price stability. However, starting from the second half of the 19th century, the bimetallic system failed to survive and was replaced by the Gold Standard after the Paris Conference held in 1867. Gold became an international unit of account in this period while central banks and other relevant authorities could convert national currencies by these parities.

As the result of Brussels (1920) and Genoa (1922) conferences held after the WWI, the British pound and USD started to be used as global reserve currencies. Thus, the gold-bullion standard, a modified version of the gold standard, was established. All these processes led to the rise of financial flows from Continental Europe to the United Kingdom. These flows subsequently contributed to the devaluation of currencies in Europe, while the UK faced overvaluation of the British pound and shrinkage of its gold reserves.

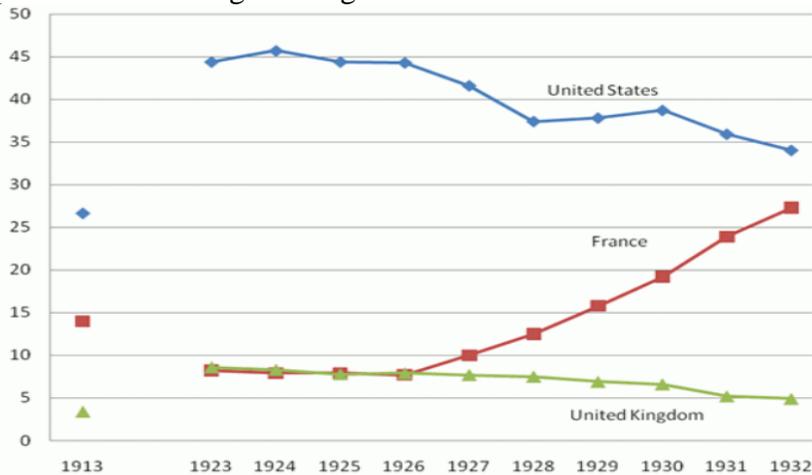


Figure 1. Shares of advanced economies in global gold reserves

Source: Irwin D. Did France cause the Great Depression? // History News Network

There were diverse fragmental and unsustainable initiatives to sustain international monetary cooperation and eliminate exchange rate volatilities in 1920-30s. Subsequently, as the result of the agreement signed after the Bretton Woods conference in 1944, a global reserve system was formulated in which gold and the USD were global reserve assets. The regulation of international monetary relations during this period involved more institutional features. Despite IMF having rules to control exchange rates, the contradictions among macroeconomic policy targets also restricted international monetary cooperation at the global level. Beginning from the second half of the 1960s, the unsustainable rise of liabilities nominated in the USD that anchored to the gold led to devaluations of the currencies of various advanced economies and deteriorations in the gold reserves and trade balance of the USA. All these developments led to the collapse of the Bretton Woods system and the current IMA format appeared as a result of meetings and consultations that occurred between 1973-1976.

In the second chapter of the dissertation, titled **“The Main Directions of Restructuring Calls of the Monetary Architecture in the Globalized Economy,”** the author investigates the IMA’s adaptation capacity to current crisis challenges by focusing on the necessary reform directions and the problems for maintaining international monetary cooperation. Based on the studies within this chapter, the author has identified below mentioned threats to the resilient IMA:

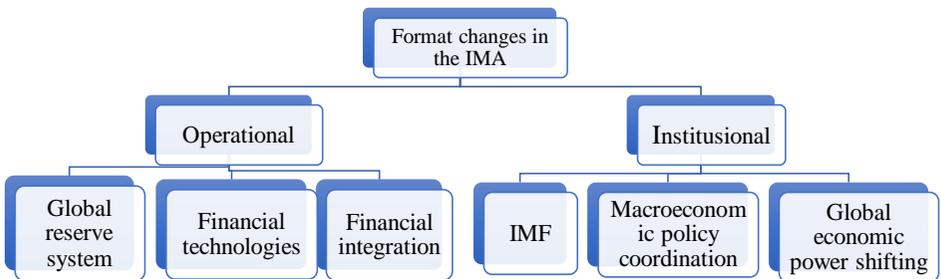
- The expansion of the exchange rate mismatches;
- The adequacy problems of the global liquidity provision and reserve system;
- Financial globalization and capital flow volatilities;
- Inadequate global surveillance frameworks;
- The problems associate with the global institutional governance mechanism.

Acceleration of financial globalization increases the influence of external factors on exchange rates while restricting the maneuvering capacity of macroeconomic policymaking. Asymmetric distributions of external sector imbalances, i.e., overrising surplus and deficit levels within the balance of payments, have led to regulation and macroeconomic problems. Notwithstanding its advantages, the current

global reserve system creates fiscal and external sector imbalances from the Triffin Dilemma aspects qua in the case of the USA.

The author’s studies show that external sector imbalances and global reserve system problems create substantial problems for sustainable global liquidity provision. While growing sources of global liquidity, especially the expansion of non-bank financial intermediation, alleviate these problems partly, they also lead to exchange rate and financial imbalances. In light of these volatilities, the importance of global financial safety nets is rapidly increasing in the global liquidity provision. The transmission of the global regulation burden to the regional supranational institutions in light of the formulation of regional monetary cooperation and liquidity provision mechanism reduces the IMF’s functionality and role in global economic development.

Formulating effective international monetary cooperation frameworks is one of the fundamental problems of the IMA. In light of the political trilemma of the global economy, international monetary cooperation attempts are episodic in essence while addressing a specific problem. However, there is an emerging tendency to shape cooperation frameworks among central banks while formulating a global reserve system based on multiple currencies does not seem realistic in the medium term.



Scheme 1. Format changes in the IMA

Source: Author

In light of multilayered global economic conjectural changes, various format realignments are observed in the IMA. In this research, the author has sorted and analyzed these realignments into two groups.

In the final chapter of the dissertation, titled **“The Impact Directions of the Changing International Monetary Architecture Challenges on the National Economy,”** the author analyzes the role of the IMF programs implemented in Azerbaijan on domestic policymaking. Moreover, diverse potential transmission channels of the IMA’s volatilities to the national economy are addressed in this chapter.

Studies in the chapter reveal that the main transmission channel of the IMA volatilities and format changes to the national economy is the AZN/USD bilateral exchange rate. This impact occurs through monetary and macrofinancial channels. This research shows that the impact of IMA volatilities in Azerbaijan is realized not directly through the balance of payments channels but through fluctuations in the dynamics of the bilateral exchange rate of the AZN with the USD and the currencies of the main trading partner countries.

High oil export levels, i.e., the reliance on the ‘petrodollars,’ and the dynamics of other components of the current account balance, especially the necessity of financing imports explain the high-level dependence of the AZN on the USD exchange rate dynamics. Under the impact of these factors, exchange rate and monetary policy regimes implemented in Azerbaijan become the principal transmission drivers of external shocks to the national economy.

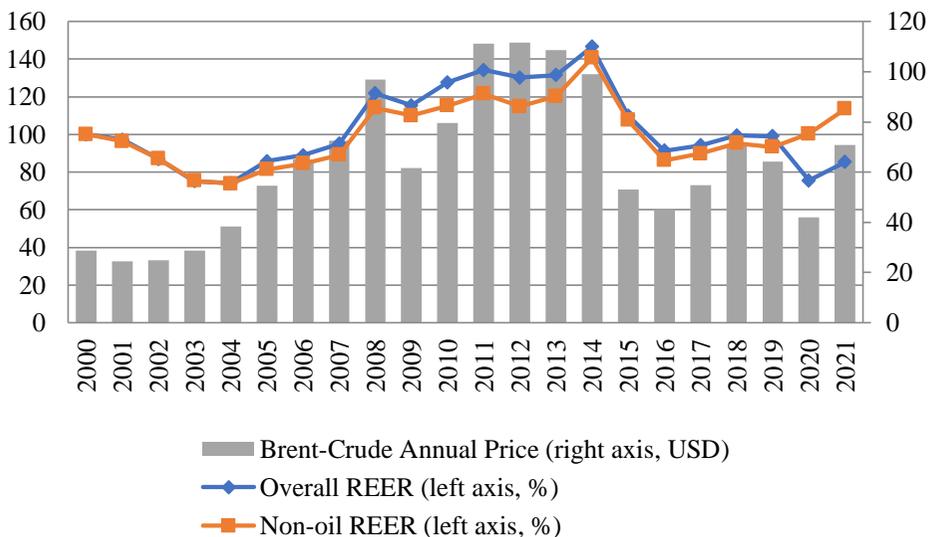


Figure 2. Fluctuation synchronicity of AZN's REER and oil prices

Source: Central Bank of Azerbaijan & Macrotrends

In the background of the high oil revenues, procyclical fiscal policies and their long-term inflationary consequences² necessitate enforcing a peg exchange regime to achieve price stability. On the other hand, the macroeconomic environment and exchange rate imbalances stemming from it make the AZN/USD bilateral exchange rate level a deterministic factor in shaping financial and capital account balances.

The author has assessed three transmission channels of IMA volatilities into the national economy – dollarization, strategic FX reserves, and external debt sustainability. Two factors - AZN/USD bilateral exchange rate and currency market dynamics are essential in shaping the dollarization level. The usage State Oil Fund (SOFAZ)

² Hüseyinov, E. Azərbaycanca manatın real məzənnəsinin dəyişiminin qeyri-neft sektorunun sahələrinə təsiri: / iqtisad üzrə fəlsəfə doktoru dis. avtoreferatı. / –Bakı, 2014. – 21 s.; Rahimov, V., Jafarova, N. The Exchange Rate Pass-Through to CPI Inflation and Its Components in Azerbaijan // Central Bank of Azerbaijan Working Paper Series No. 01/2017, – 2017. – 30 p.

reserves as a macroeconomic buffer leads to macrofinancial resilience risks in the long term.

On the other hand, the source of exchange rate risk on foreign debt, another macrofinancial impact channel, is not IMA, but global oil market factors. Overall, our analysis of the current external public debt portfolio shows the limited impact of IMA volatilities on the national economy through debt sustainability in the medium term, but the management of external public debt needs to be improved.

Finally, the main challenges and prospects of the transition of Azerbaijan's economy into the new quality stage are assessed in this chapter. Analyses in this paragraph indicate that economic diversification policies implemented during the oil boom period have partly been effective in restricting the resource sector's expansion and its dominance in the macroeconomic policy.

Based on the analyses in the dissertation, the main findings on the evolution of the IMA, its current operational and structural challenges, and the identification of their impact channels on the national economy are the followings:

1. The IMA, characterized as an attempt to standardize monetary policy frameworks implemented by individual countries, has erratically involved systemic features in its historical evolution. In the current phase, the strengthening of macroeconomic sovereignty edges (in terms of policy tools and targets) of the national economies and inconsistencies in the policy approaches of the supranational institutions make it nearly impossible to formulate long-term effective and resilient regulatory frameworks in international monetary relations.

2. The author's studies approve that the underlying reasons of the main shortcomings observed in the various evolution stages of the IMA are exchange rate mismatches, external sector imbalances and their asymmetric distribution, and finally, the global reserve system and sustainable global liquidity provision problems.

3. The expansion of financial globalization increases the influence of external factors on exchange rates while restricting the maneuvering capacity of macroeconomic policymaking. Asymmetric distributions of external sector imbalances, i.e., overruling surplus and

deficit levels within the balance of payments, have led to regulation and macroeconomic problems. Notwithstanding its advantages, the current global reserve system creates fiscal and external sector imbalances from the Triffin Dilemma aspects qua in the case of the USA. The author's studies show that fiscal consolidation should be conducted at the level enabling more growth in the countries with current account deficits, while the economies experiencing unsustainable credit growth should improve macroprudential policy discipline to prevent a new vicious circle of the credit boom. In countries with high surpluses, extreme fiscal space should be restricted while gradually shifting away from accommodative monetary policies.

4. The design features of the global reserve system intensify the spiral effects of the cyclical growth dynamics of the US economy on other countries and the international financial system. The attempts to formulate a multicurrency reserve system to minimize such effects are increasing rapidly. However, in the background of the USD's current dominance, the capacity of other currencies to become alternative global reserve currencies is limited due to several factors, including the scale of economies, exchange rate stability, lower development level of the financial markets, and domestic structural shortcomings. On the other hand, the functionality of the SDR, issued by the IMF at the supranational level, is limited. Moreover, while digital currencies are increasing their popularity and possess significant potential to contribute to the future structuralization of this system, it is earlier to fully predict their role in the global reserve system, given their current volatile development uncertainties.

5. External sector imbalances and global reserve system problems create substantial problems for sustainable global liquidity provision. While growing sources of global liquidity, enables to meet funding sources, they also lead to macroeconomic and financial imbalances. In light of these volatilities, the importance of global financial safety nets is rapidly increasing in the global liquidity provision. The transmission of the global regulation burden to the regional supranational institutions in light of the formulation of regional monetary cooperation and liquidity provision mechanism reduces the IMF's functionality and role in global economic

development. Additionally, the unsustainable rise of liquidity necessities through capital flows and credit boom restricts the room for managing liquidity shocks in the absence of the global ‘central bank.’

6. Formulating effective international monetary cooperation is one of the fundamental problems of the IMA. In light of the political trilemma of the global economy, international monetary cooperation attempts are episodic in essence while addressing a specific problem. While IMF is a formal multilateral surveillance and cooperation mechanism, the imperative norms urging countries to implement the measures to solve these problems do not exist. Therefore, sovereign states prefer to organize diverse regional or strategic cooperation frameworks based on their political-economic interests.

7. The main change in the institutional architecture of international monetary cooperation is the rising importance of central banks parallel with the declining role of global institutions. Emerging economies opt to benefit from bilateral cooperation frameworks and political influence stemming from their monetary independence rather than using international cooperation mechanisms. In light of the decentralization tendencies observed in the global financial safety nets, central banks prefer to build their policy sovereignty by using bilateral and regional currency swaps rather than delegating it to supranational institutions.

8. The main format changes of the IMA are classified into two groups in the research. The first direction involves functional realignments, i.e., formulation of a new global reserve system, operational and regulation problems stemming from the expansion of financial technologies, and capital flow volatilities associated with financial globalization. The second direction of the changes covers IMF reforms, strengthening of global macroeconomic policy cooperation, and the changes in the IMA and its various components created by the global economic power shift.

9. The analyses in the research show that the opportunities for building cooperation and operational mechanisms under the implementation of either fixed or floating exchange rate regimes are limited in a global reserve system based on any national currency. The provision of global liquidity under the dominance of any national

currency restricts the policy options among the domestic monetary and external stability targets for the reserve-issuing countries (Triffin Dilemma). Moreover, the competition over the exchange rates among leading economies leads to additional pressures on the resilience of the global reserve system. Nevertheless, the calls and attempts to shift into a multicurrency reserve system have increased in recent decades. However, this system appears unable to maintain stability in the global reserve system as it will lead to more systemic problems stemming from speculative or revenue-seeking capital flows among the dominant reserve currencies. The author considers that these chronic problems will continue to exist in the future formats of the global reserve system. The rise of digital currencies issued under various technologies can shift the competition for becoming an international reserve currency issuer out of the monopoly of nation-states and enable active participation of the private sector (especially tech companies) in this process.

10. Another direction of redesigning the global reserve system is to increase the functionalities of the SDR issued by the IMF. It firstly requires allocating more volumes of SDRs, not depending on the quota shares of the IMF members, and increasing the possibility for emerging economies to use these resources. At the same time, the expansion of using SDR as a unit of account will also increase its importance as a medium of exchange and expand liquidity in the SDR. In this regard, the author considers that creating a substitution account in the IMF can be beneficial by encouraging member states to accumulate their reserves in this account to meet their capital needs and use SDRs in these operations instead of national currencies.

11. The expansion of fintech products gives birth to new operational and institutional challenges for policymaking at macro and global levels. In this regard, especially the issuance of digital currencies by private entities can make it available for enjoying its seigniorage opportunities which have been under the legal monopoly of states during the long historical development of monetary relations. These changes in the issuance of the currencies also necessitate substantial modifications in overall economic policymaking, particularly in the central banking paradigms. All these factors will

transform the global reserve system into a new design based on digital currencies issued in centralized and decentralized ways rather than solely based on national currencies. On the other hand, the issuance of digital currencies by central banks could enable them to preserve their current institutional mandates while leading to the distortion of the financial intermediation role of banks.

12. One of the significant format changes in the IMA is associated with the reforms concerning institutional governance and regulatory frameworks. These reforms, especially regarding the IMF, cover both institutional (the governance and quota system) and operational (regulation, surveillance as well as financing mechanisms) aspects. Nonetheless, the author also considers that in the background of the political trilemma of the global economy (expansion of economic globalization, integration, and sovereignty of nation-states), regional cooperation frameworks, by providing more independence and policy space for countries, will play a more significant role than multilateral global institutions in realizing format changes in the IMA.

13. The author's studies show that the sustainability challenges of the Azerbaijani economy at the current phase are one of the main factors shaping the impact channels of the IMA volatilities on the national economy. These challenges cover finishing the multidimensional transition stage, increasing the functionality of resource-richness in the structural diversification, accelerating institutional development from different aspects, including market maturity and economic functionality of the state, and institutional and operational modernization of economic policymaking.

14. Given the structural features of the national economy, AZN/USD bilateral exchange rate dynamics are the main transmission channel of the IMA volatilities to the national economy. These dynamics affect the national economy from monetary and macrofinancial aspects. This research shows that the impact of IMA volatilities in Azerbaijan is realized not directly through the balance of payments channels but through fluctuations in the dynamics of the bilateral exchange rate of the AZN with the USD and the currencies of the main trading partner countries.

15. High oil export levels, i.e., the reliance on the ‘petrodollars,’ and the dynamics of other components of the current account balance, especially the necessity of financing import explain the high-level dependence of the AZN on the USD exchange rate dynamics. Under the impact of these factors, exchange rate and monetary policy regimes implemented in Azerbaijan become the principal transmission drivers of external shocks to the national economy. On the other hand, the macroeconomic environment and exchange rate fluctuations stemming from it also make AZN/USD bilateral exchange rate a deterministic factor in shaping financial and capital account balances.

16. Three transmission channels of IMA volatilities into the national economy – dollarization, strategic FX reserves, and external debt sustainability are analyzed in the research. These analyses reflect that two factors - AZN/USD bilateral exchange rate and current market dynamics are essential in shaping the dollarization level. Furthermore, other factors such as monetary policy stance, high exchange rate pass-through to inflation, the sensitivity of the national economy on the external sector, speculative influence opportunities on the national currency, and structural problems of the banking and financial markets substantially affect dollarization.

17. While the assessments of the SOFAZ reserves on currency structure, investment tools, and maturity indicate that its current investment portfolio partly mitigates the losses stemming from the IMA volatilities, overloading with quasi-fiscal responsibilities creates obstacles to the macroeconomic stabilization functionality of the SOFAZ. Using SOFAZ reserves as a macroeconomic buffer leads to the decline of the country’s strategic reserves under the procyclical policy targets in the short term while emerging macrofinancial stability risks in the long term.

18. Relying on analysis regarding external debt, the author considers that the primary risk sources there associated with the exchange rate are global oil market dynamics rather than IMA factors. In general, assessments of the current portfolio of external public debt reflect that the impact of IMA volatilities on the national economy through the debt sustainability channel is restricted. However, the author also states that it is essential to improve external debt

management policy to mitigate current and potential fiscal burdens that can adversely affect the pace and effectiveness of the current reform agenda.

19. As the conclusions of the studies within the dissertation, the author considers that the below-mentioned policy measures are necessary for strengthening the resilience of the Azerbaijani economy against external shocks:

✚ To achieve sustainable economic development and complete structural transformation of the national economy:

- Implementing structural reforms by considering global trends, assessment of sectoral competitiveness, and supporting the sectors involving high-value generation potential;

- Improving the institutional and operational capacity of economic policymaking and implementing necessary mechanisms (e.g., fiscal and external debt rules, rule-based monetary policymaking, etc.) to strengthen fiscal and monetary policy disciplines in practice, not only de-jure;

- Enhancing financial intermediation and eliminating reasons for high costs (low savings, limited domestic and international financing opportunities) of access to finance;

- In the framework of diversifying the national economy: restricting market failures resulting from government interventions, developing the role of the private sector, and diminishing the fiscal burden of the government

✚ To improve monetary policymaking:

- Conducting targeted structural reforms for the development of financial markets and the banking sector to increase the functionality of the interest rate channel and strengthen monetary policy transmission mechanisms to the real sector;

- High exchange rate pass-through to inflation is detrimental to the development of the real sector and formulating adequate expectation channels on the economic agents. In this regard, in the background of the high dependence of implementing appropriate exchange rate regimes on the structural changes in the real sector, shifting from pegged exchange regimes to managed floating ones is considered one of the appropriate policy options;

- Considering the significance of financial stability in maintaining macroeconomic resilience, the measures in this direction should be accompanied by efficient, flexible, and result-oriented coordination mechanisms between fiscal and monetary policies. In this regard, strengthening the institutional and functional capacity of the Economic Council is considered necessary for improving economic policy coordination.

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