



## **ON THE NEED TO CREATE A SINGLE FREELY CONVERTIBLE CURRENCY**

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### **Abstract:**

This article discusses the need to reform the world's freely convertible currency exchange system. Current freely convertible currencies are based on the economy and monetary system of certain countries, and it is not possible for other countries to see this system transparently. This situation is bound to provoke protests. The article states that a new system should be created that will allow to determine the value of the currency on the basis of the principle of transparency for all. It also outlines the advantages of restricting the movement of states as freely convertible currencies.

**Keywords.** Currency exchange system, new international financial institutions, international regulations, "Single freely convertible currency", Center, A-Bank, Central Banks, single standard, system, international normative document.

### **Introduction**

The solution of the following two problems associated with a freely convertible currency exchange system can lead to a high level of development of the world economy:

1. Trade and economic relations in the world are based only on freely convertible currencies (FCCs), and most countries cannot conduct free trade and economic relations due to the lack of reserves of these currencies, even if their national currency is active within the country (this is more the case specific to underdeveloped or developing countries). It is known that in order to have a freely convertible currency, every country must sell goods (works and services) abroad in FCCs. Therefore, it is not possible to exchange the national currency of the state directly into a FCC. It follows from this that **a new currency exchange system should be created, which allows the direct exchange of the national currency of each country into a freely convertible currency!** Only then the problem of a shortage of FCC will be solved for each country to conduct free trade - economic relations.

2. The widespread use of its national currency as a FCC on a global scale, relying only on the economy of a certain country (because there are no other guaranteed indicators), indicates that the world has not yet created a FCC exchange system based on a clear economy in the world. In addition, in the event that a country itself, whose national currency has become a FCC, or its financial and economic system collapses due to some unexpected reasons, there is no understanding of how the countries of the world should act, which use this FCC in the account-book system.



In this case, there is no way to prevent the spread of the financial and economic crisis of a country with a FCC unit to other countries of the world. An example of this is that the financial crisis that occurred in the United States in 2008 spread to the whole world. In addition, according to the latest information, the fact that the United States is increasingly at risk of default due to the increasing national debt, or the fact that other countries cannot control the circulation of the US currency in the form of cash, may endanger the economy of the countries of the world - rightfully causes objections from other countries. Therefore, **it is advisable to create a new currency exchange system** in order to prevent similar unfortunate incidents.

**In fact, solving these problems should be a problem for economists, just as it is a problem for scientists to find solutions for examples that have not yet been solved in mathematics!**

### **The Main Part**

**I would like to express the following opinion regarding the solution of the above-mentioned problem:**

I believe that the creation of the "**Single Freely Convertible Currency**" based on a new economic order in trade and economic relations between states will solve these problems. For this, **new international financial institutions** should be established as follows;

**Firstly**, an International Regulation will be developed, and in accordance with it, a Center will be created that will take into account the financial and economic indicators of all countries on an ongoing basis. The purpose of creating this Center is to constantly determine the value of a SFCC unknown to us based on the financial and economic indicators of all countries and ensure its circulation. According to the regulation, the value of the SFCC and the financial and economic indicators (expressed in the single freely exchangeable currency) necessary for constant determination of the conversion rate of the national currency of all countries should be sent to the Center by the Central Banks of all countries. Initially, since the exchange rate of the SFCC was unknown at the time of establishment of the Center's work, these financial and economic indicators are expressed in terms of the estimated SFCC rate. As the most stable currency, the exchange rate of the estimated SFCC should be expressed in the same way as the exchange rate of the US dollar, which is currently in circulation around the world. For example, instead of the indicator of gold reserves in the Central Bank of a certain country expressed in US dollars, the SFCC is displayed. In this way, the index of other assets is also based on the prices expressed in US dollars in the world market, and instead of the US dollar, it is expressed in the indicator of the SFCC. The financial and economic indicators of all the countries gathered in the center allow to determine the value of the SFCC, and before its introduction into circulation, the indicators expressed at the estimated SFCC rate are treated as the real price of the SFCC, and thus the indicators expressed in US dollars are completely abandoned.

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Centralized financial and economic indicators of all countries allow to determine the equivalent exchange rate of the national currency of any country in relation to the value of the SFCC. That is, the financial and economic indicators of each country in the Center represent the value of its national currency in proportion to the fact that the sum of the financial and economic indicators of all countries embodied in the Center always represents the value of the SFCC. The ratio of the value of the national currency of each country to the value of the SFCC is compared, and the conversion rate of the national currency of each country to the SFCC is determined. Of course, only one method is used to determine the exchange rate.

Therefore, on the basis of indicators in the Center, the exchange rate of the national currency of each country against the SFCC is determined, and after that it will be possible to start currency exchange operations.

While the value of a SFCC is determined on the basis of these financial - economic indicators, it is not backed by any gold or other precious assets. I will explain the reason for this later.

**Secondly, A-Bank** will be required to conduct continuous monitoring of the circulation of the SFCC. The function of the A - Bank is to control the amount of the SFCC issued by the Center in each country and its movement between countries. For this, the movement of the SFCC between the Center and the states should be carried out through the account numbers of this A-Bank (with the exception of the movement of the SFCC within the state). The movement of the SFCC between the countries is carried out in A - Bank, and operations on the conversion of the national currency of each country are carried out in separate control accounts in the Center.

According to the exchange rate determined by the center, the SFCCs in non-cash and cash form are put into circulation as follows:

- for non-cash transactions of the SFCC, the Central Bank of any country transfers a certain amount of its national currency to an account opened in the Center, and the amount of the SFCC calculated from the Center at the equivalent exchange rate of the day (through A - Bank) is transferred to the account of the Central Bank of the country. This operation is specified in paragraph 1. a, b, c of the scheme of movement of the SFCC. After that, as a result of currency operations related to trade and other financial and economic relations between the countries, the SFCC will be in circulation (shown in paragraph 2. a, b of the scheme),

- for the circulation of the SFCC in cash form, the sealing machine operates as it is now, and it is sealed and put into circulation only by A-Bank. For this, of course, the Central Bank of any country transfers a certain amount of its national currency to the account opened in the Center (or the amount of the Single freely convertible currency to the account of A-Bank). In turn, according to the amount of the SFCC received by the A-Bank, the SFCC in the form of cash is sealed and sent to the Central Bank of the country (shown in paragraph 3. a, b, c of the scheme).

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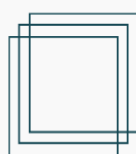
In addition, when a country wants to exchange the SFCC in its territory for its national currency, an operation opposite to the order of introduction of the SFCC mentioned above is carried out. That is, the Central Bank of a certain country transfers a certain amount of the SFCC to an account opened in the Center (through A - Bank), and the amount of national currency calculated from the Center at the equivalent conversion rate of the day is transferred to the account number of the Central Bank of this country (directly through the Center) (shown in paragraph 4. a, b, c of the scheme).

For the circulation of a SFCC, as mentioned above, 3 entities participate in an integral relationship. They are:

- 1) Center
- 2) A - Bank
- 3) Central Banks of all countries.

Now we come to the main concept. As a result of the above-mentioned first operation related to the introduction of a SFCC into circulation (shown in point 1. a, b, c of the scheme) or the opposite operation (shown in point 4. a, b, c of the scheme) currency and the amounts of the SFCC will have no value. It is simply the amount of money generated in the account of the Center as a result of the operations performed for the circulation of the SFCC, and it is kept for strict control only. In fact, the value of the national currency of each country is determined by the gold, currency and other valuable assets of that country, according to certain economic laws. Therefore, a country that has a certain amount of a SFCC actually has an amount of its national currency corresponding to the conversion rate of this SFCC. To put it even more clearly, for the SFCC in the reserve of each country, the Center is only obliged to convert it to the national currency of that country at the equivalent rate or to carry out the reverse operation, as mentioned above. That is, the SFCC is the only means of payment in the implementation of trade and economic relations between the countries, and it is necessary to have such a system to ensure its circulation.

It should be noted that, taking into account the direct participation of national currencies in the conversion of the SFCC, a clear mechanism of control by the Center of the financial and economic indicators constantly sent to the Center by the Central Banks of the states must be created! For this, it will be necessary to establish the activity of the Central Banks of the states according to a **single standard**, and to create an intelligent system that controls the activity of the Central Banks of the states by the Center and A-Bank. Therefore, at the same time, it is necessary to develop an appropriate international regulatory document that defines the issues of responsibility for the participants of the SFCC circulation that violates the order in the system (including the application of financial fines and other legal responsibilities against the entity that caused the violation of the order). Only then the reliable circulation of the SFCC will be ensured.



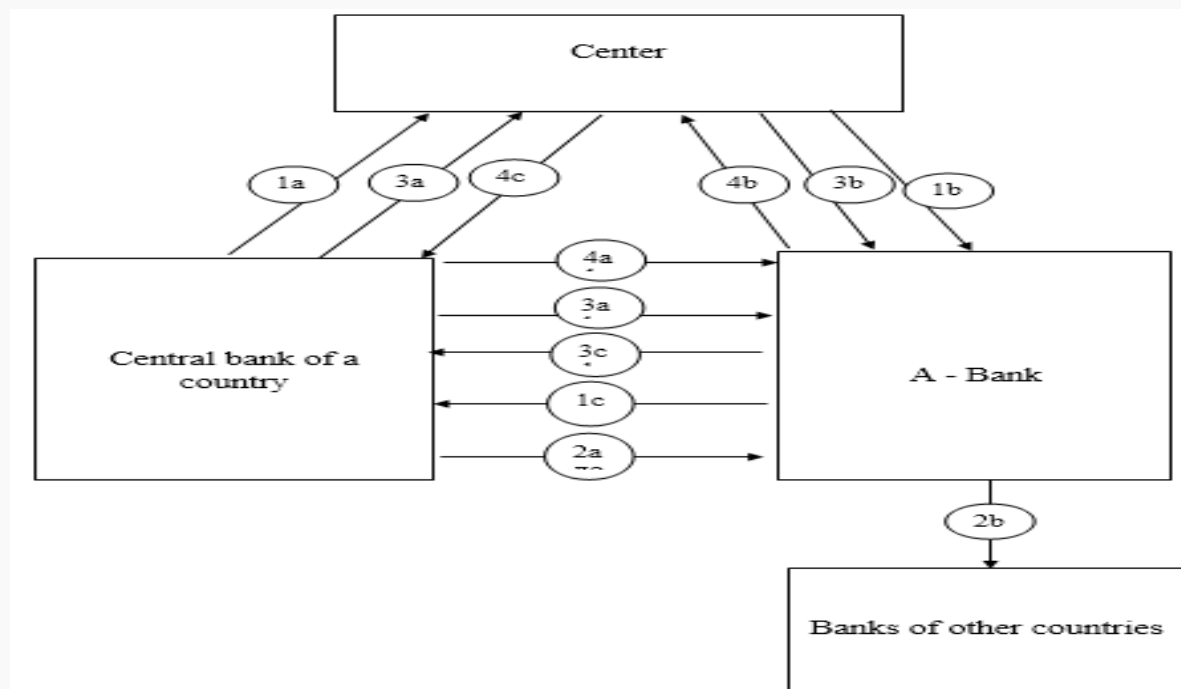
- If the implementation mechanism of this procedure related to the circulation of the SFCC is considered correct;
- in order for only the SFCC to be in circulation as a means of payment between countries, relevant normative documents must be developed and signed between all countries and financial institutions providing SFCC operations (the Center, A - Bank, the Central Bank of the countries),
  - each financial institution has its own charter, which defines the working order, and other relevant organizational matters.

### Conclusion

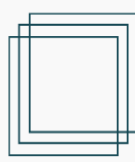
The achievements of the organization of such SFCC operations are as follows:

- 1) It is ensured that a "single freely convertible currency" based on the indicators of the world economy, and not on the financial and economic indicators of a certain country, will be implemented. This allows to determine the value of this currency based on the principle of transparency. At the same time, a more stable exchange rate is achieved compared to the current freely convertible currencies.
- 2) The SFCC in the form of cash is stamped and put into circulation not by the money-stamping machine of any country, but by A-Bank, which is under everyone's control. Since the Center and A-Bank are not subordinated to any state, the principle of real economy and transparency is achieved in this work as well.

### Scheme of the movement of a SFCC



1. a, b, c) The Central Bank of any country transfers a certain amount of its national currency to the account opened in the Center, and the amount of the SFCC



- calculated from the Center at the equivalent exchange rate of the day is transferred to the account number of the Central Bank of the country (through A - Bank).
2. a, b) The SFCC will be in circulation (through A - Bank) through trade and other financial and economic relations between the countries.
3. a, b, c) The Central Bank of any country transfers a certain amount of its national currency to the account opened in the Center (or the amount of the SFCC to the account of Bank A). In turn, according to the amount of SFCC received by A-Bank, the SFCC in the form of cash is sealed and sent to the Central Bank of the country.
4. a, b, c) The Central Bank of the State transfers the amount of the SFCC (through A - Bank) to the account opened in the Center, and the amount of national currency calculated from the Center at the equivalent exchange rate of the day is transferred to the account of the Central Bank of the state.

Although the idea of a SFCC is highly controversial, I would like to summarize my thoughts in this way.

I would like to present this **new concept** of creating a SFCC to world economists for discussion, hoping that it will contribute to the reform of the freely convertible currency exchange system.

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