

European Monetary System and IMF

Gürhan Uysal

Ondokuz Mayıs University, Samsun, Turkey

21st Century economy is full competitive market structure, severe capitalism exists in markets. Both capitalism and full competition requires monetary policy to increase demand in business markets. Because markets and firms face isomorphism threats that make competition severe. European Monetary System has gold-euro relations. ECB runs like second IMF in global and European economy. There may be need of third IMF in global economy. It may establish in China as Asia Central Bank. All three IMFs enable monetary authorities to apply effective monetary policy in global economy. Because capitalism requires money and monetary for demand in 21st Century. In addition, without third IMFs, ECB currently apply propositions of neoclassical monetarism in Europe. That policy would support demand and firms in European economy as it is very much important in global economy.

Keywords: USD, IMF, European Monetary System, ECB, demand

Introduction

IMF system is based on gold-USD-parity relations (Uzunoglu, 2020). USA FED issue dollars according to this relation when internal market needs monetary. Secondly, it is expected that 40% of European business go bankruptcy in near future. Therefore, markets need monetary policies. Currently in February 2021, European Central Bank (ECB) may apply of propositions of neoclassical monetarism (Uysal, 2019). According to Neoclassical Monetarism, central banks support firms in economy. Methodology of support might be repo, reverse repo transactions. Because ECB bought plenty of assets from European firms during 4th quarter of 2020. In addition, AFOM (open market operations) is a key to FED's. Therefore, Fed may be established Takasbank in its system to finance markets. Because Takasbank and Interbank are European systems.

This study aims to clear a monetary policy to finance European business via IMF's systems. Each country has its account in IMF, while USA supports most of IMF's gold and cash accounts.

IMF and European Monetary Systems

How IMF system is applied in European economy? What would be if European economy goes bankruptcy? EU economy forces global economy in trade. EU economy has strong tie with USA economy and with Asian economy. Therefore, support of EU economy is important. Because in 1929, EU economy collapsed due to World War I, EU didn't raise demand against American market (Parasız, 2011).

How IMF may finance European economy? First of all, Fed supplies gold to IMF. Because in IMF accounts, Fed has most of gold accounts. In the second step IMF will open an account in France in a financial

Gürhan Uysal, professor, Ph.D., management, School of Business, Ondokuz Mayıs University, Kurupelit Campus, Atakum-Samsun, Turkey.

Correspondence concerning this article should be addressed to Gürhan Uysal, School of Business, Ondokuz Mayıs University, Kurupelit Campus, 55139 Atakum-Samsun, Turkey.

bank. That bank may become fictive (paravan) bank; and IMF would give gold to this account in France. In the third step, financial bank would print US dollar and Euro equals to this gold given. And central banks across Europe would distribute this monetary all across Europe for financial needs.

European Monetary System: Switzerland

Lagarde, president of ECB, is former president of IMF. In IMF system USA issue US Dollar according to gold account in IMF system. In European system ECB does not have gold account. Who issues Euro in European economy? Further, Switzerland is separate economy from EU system. It supports demand in Europe. It has gold in its system and banks. Switzerland's financial banks attract investments and gold from all over World. Thus, it may run like IMF. Therefore, Switzerland's system may issue Euro for European economy. Thus, there needs combine of financial banks in Switzerland, i.e., Switzerland is to combine its financial banks to issue Euro according to its gold accounts.

Who issues Euro? Assumption, Bundesbank issue Euro in Europe. ECB distributes that money across Europe. Euro is needed for international operations. However, ECB doesn't have gold, and Switzerland has it. Therefore, Switzerland may issue Euro equals to its gold amount, and that monetarization may finance European economy. Moreover, in order to support this system, EU has 28 member states, and those states and others may invest their gold to Switzerland system and accounts.

Further, Europe needs 2nd interbank market. Current Interbank Market of Europe is LIBOR, London. In ECB system, there is also EURIBOR system like LIBOR. Therefore, 2nd Interbank Market may be established in Switzerland. 2nd Interbank may satisfy currency needs of European banks and other countries.

For Turkey case, takasbank and special drawing rights are important (Eroğlu, 2014). TCMB would withdraw gold and dollar from IMF via SDRs. Those accounts come to Takasbank, and TCMB issue TL to finance markets with TLs according to amount of accounts in Takasbank. Because Takasbank is interrelated with Interbank interest rate. Therefore, it is important in operations (Doğru, 2015).

Conclusion

To conclude, Europe needs to pass national currency operations to increase internal demand in European economy. In addition, Euro must exist and issued in markets for international operations. For example, Middle East and Asian markets need Euro to do international trade. Thus, ECB manage Euro and national currency operations together. That policy addition to Switzerland monetary may increase competitiveness of European economy in global markets.

USA has increased its GDP from 17 trillion to 20 trillion dollars, and then it increased up to 24 trillion dollars. That policy may result in inflation in economy. Inflation is important because it caused 2008 crises and mortgage crises in American economy in 2008. For example, in George W. Bush era, monthly inflation increased from 1% to 4% percentage during 2000s due to oil prices. Oil prices increased from 40 dollars to 150 dollars. That policy increased monthly inflation rate in American economy that result in mortgage crises.

Finally, debt/income ratio of England economy is 80%, it is 106% for USA economy. It is 50% for China, and much more for Japanese economy. Therefore, it is urgent for European economy for financialization. Because EU markets and economy support businesses in global economy.

Finally, in the short term ECB may establish 2nd Interbank in Switzerland, and in the long term (5 years later), there is need to establish 3rd IMF in global economy (Yücememiş & Çinko, 2019). 3rd IMF may be

found in Iraq. Because 3rd IMF may increase demand against Europe from Middle East region, and from Asian market. Because there is still demand from Middle East to European markets.

References

- Doğru, B. (2015). Monetary policy of central banks. Akademisyen Publishing, Ankara.
- Eroğlu, N. (2014). Financial markets in Turkey. Der Publishing, Istanbul.
- Parasız, İ. (2011). Central bank systems and monetary policy. Ezgi Publishing, Bursa.
- Uysal, G. (2019). New version of IS-LM: Neoclassical monetarism. *Economics World*, 7(3), 140-145.
- Uzunoğlu, S. (2020). Currency and monetary markets. 4th Edition, Literature Publishing, Istanbul.
- Yücememiş T. B., & Çinko, L. (2019). Financial markets: Monetary and banking systems. Nobel Publishing, Ankara.