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AUTHOR(S)	Avtandil Chutlashvili
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THE MAIN CHALLENGES OF ECONOMIC POLICY AND THE FEATURES COMPOSITION OF OFFICIAL RESERVES

Avtandil Chutlashvili
Doctor of Economy
Tbilisi State University, Georgia

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ABSTRACT
This paper considers the main challenges of the economic policy and the changes in the structure of official reserves. The main risks of economic policy have been identified and certain interrelation of their distribution across countries has been established. The structure of official reserves and economic risks are examined using the example of six groups of countries. In particular, the G 7 countries, G 20 countries, G 20 countries without G 7 countries, 10 countries whose GDP is between 500 - 100 billion US dollars, 10 countries whose GDP is less than 100 billion US dollars and 10 countries whose GDP is between 50 - 10 billion US dollars. Some patterns in the distribution of economic risks and in the structure of official reserves have been established. It is concluded that it is a necessary review and improves the theoretical and methodological base and practice of placing Official Foreign Exchange Reserves.

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Introduction.

The latest report of the World Economic Forum [5. 80-89] shows data from a survey of senior executives (identified by the Executive Opinion Survey, EOS) regarding risk perception at the national level. All 35 risks are divided into five categories, i.e. Economic, Geopolitical, Societal, Environmental, Technological.

For the purposes of our study, a number of risks and countries are grouped according to individual links or specific characteristics. In particular, the following countries are highlighted:

1. G 7 countries *(Canada, France, Germany, Italy, Japan, the United Kingdom and the United States);*

2. G 20 countries *(Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K. and the United States, as well as the European Union);*

3. G 20 countries without G 7 countries *(Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey and the European Union);*

4. 10 countries whose GDP is between 500 - 100 billion US dollars *(Israel, Austria, Finland, Romania, Czechia, Greece, Ukraine, Kazakhstan, Hungary, Slovakia);*

5. 10 countries whose GDP is less than 100 billion US dollars *(Bulgaria, Lithuania, Serbia, Azerbaijan, Latvia, Estonia, Georgia, Armenia, Moldova, Kyrgyzstan);*

6. 10 countries whose GDP is between 50 - 10 billion US dollars *(Albania, Armenia, Cyprus, Estonia, Georgia, Iceland, Latvia, Malta, Moldova, Mongolia)*.

Materials and methods.

The analysis shows that for most countries above, the top three challenges are economic problems (44.4%), followed by geopolitical (31.7%) and social (15.9%).

We should take a closer look at economic risks. Let's consider them by groups of countries (six groups of countries each). Table 1 shows the 3 main risks across a range of countries. Thus, in the G 7 countries, out of 21 main risks, 14 are economic, which is 66.7%.

In the G 20 countries, out of 54 main risks (no data for Russia and the European Union), 33 are economic, which is 61.1%.

In the G 20 countries, but without the G 7 countries, out of 33 main risks (no data for Russia and the European Union) 19 are economic, which is 57.6%.

In 10 countries where the GDP is in the range of 500-100 billion US dollars, out of 27 main indicators (data are missing for one country), 13 are economic, i.e. 48.1%

In 10 countries where the GDP is in the range of 100-50 billion US dollars, out of 27 main indicators (no data for one country), 12 are economic, i.e. 44.4%.

Table № 1. Top risks according to the World Economic Forum.

	Country	Risk priority number	Risk priority number	Risk priority number
1	2	3	4	5
G 7 Countries				
1	Canada	1 Cost-of-living crisis	2 Debt crises	3 Rapid and/or sustained inflation
2	France	1 Debt crises	2 Severe commodity price shocks	3 Rapid and/or sustained inflation
3	Germany	1 Rapid and/or sustained inflation	2 Severe commodity price shocks	3 Interstate conflict
4	Italy	1 Debt crises	2 Rapid and/or sustained inflation	2 Interstate conflict
5	Japan	1 Geoeconomic confrontation	2 Natural disasters and extreme weather events	3 Prolonged economic stagnation
6	UK	1 Cost-of-living crisis	2 Debt crises	3 Rapid and/or sustained inflation
7	USA	1 Debt crises	2 Rapid and/or sustained inflation	3 Geoeconomic confrontation
G 20 Countries without G 7 countries				
8	Argentina	1 Rapid and/or sustained inflation	2 Debt crises	2 Proliferation of illicit economic activity
9	Australia	1 Cost-of-living crisis	2 Debt crises	3 Rapid and/or sustained inflation
10	Brazil	1 Rapid and/or sustained inflation	2 Proliferation of illicit economic activity	3 Geoeconomic confrontation
11	China	1 Geoeconomic confrontation	2 Natural disasters and extreme weather events	3 Rapid and/or sustained inflation
12	India	1 Digital inequality	2 Geopolitical contestation of resources	3 Cost-of-living crisis
13	Indonesia	1 Debt crises	2 Interstate conflict	3 Rapid and/or sustained inflation
14	Mexico	1 Rapid and/or sustained inflation	2 Proliferation of illicit economic activity	3 Prolonged economic stagnation
15	Russian Fed.	*N / A*	*N / A*	*N / A*
16	Saudi Arabia	1 Cost-of-living crisis	2 Interstate conflict	3 Rapid and/or sustained inflation
17	S. Afrika	1 State collapse	2 Debt crises	2 Cost-of-living crisis
18	S.Korea	1 Rapid and/or sustained inflation	2 Proliferation of illicit economic activity	3 Severe commodity price shocks
19	Turkey	1 Rapid and/or sustained inflation	2 Employment and livelihood crises	3 Interstate conflict
20	EU	*N / A*	*N / A*	*N / A*

Table № 1. Continuation.

1	2	3	4	5
10 countries whose GDP is between 500 - 100 billion US dollars				
21	Austria	1 Rapid and/or sustained inflation	2 Severe commodity price shocks	3 Breakdown of critical infrastructure
22	Czechia	2 Rapid and/or sustained inflation	2 Severe commodity supply crises	3 Severe commodity price shocks
23	Finland	1 Geoeconomic confrontation	2 Prolonged economic stagnation	3 Severe commodity price shocks
24	Greece	1 Cost-of-living crisis	2 Severe commodity price shocks	2 Rapid and/or sustained inflation
25	Hungary	1 Rapid and/or sustained inflation	2 Infectious diseases	3 Geoeconomic confrontation
26	Iran	*N / A*	*N / A*	*N / A*
27	Romania	1 Rapid and/or sustained inflation	2 Geoeconomic confrontation	3 Interstate conflict
28	Ukraine	1 Severe commodity supply crises	2 Interstate conflict	3 Large-scale involuntary migration
29	Kazakhstan	1 Geoeconomic confrontation	2 Rapid and/or sustained inflation	3 Geopolitical contestation of resources
30	Slovakia	1 Rapid and/or sustained inflation	2 Severe commodity price shocks	2 Severe commodity supply crises
10 countries whose GDP is less than 100 billion US dollars				
31	Bulgaria	1 Rapid and/or sustained inflation	2 Proliferation of illicit economic activity	3 Cost-of-living crisis
32	Lithuania	1 Severe commodity price shocks	2 Interstate conflict	3 Rapid and/or sustained inflation
33	Serbia	1 Geoeconomic confrontation	2 Severe commodity price shocks	3 Interstate conflict
34	Azerbaijan	*N / A*	*N / A*	*N / A*
35	Congo (Dem.)	1 Digital inequality	2 State collapse	3 Debt crises
36	Slovenia	1 Severe commodity price shocks	2 Geoeconomic confrontation	3 Rapid and/or sustained inflation
37	Sri Lanka	1 Debt crises	2 Cost-of-living crisis	3 State collapse
38	Angola	1 Rapid and/or sustained inflation	2 Employment and livelihood crises	2 Cost-of-living crisis
39	Panama	1 Employment and livelihood crises	2 Debt crises	3 Digital inequality
40	Costa Rica	1 Cost-of-living crisis	2 Debt crises	3 Breakdown of critical infrastructure
10 countries whose GDP is between 50 - 10 billion US dollars				
41	Latvia	1 Rapid and/or sustained inflation	2 Interstate conflict	3 Cost-of-living crisis
42	Estonia	1 Severe commodity price shocks	2 Geoeconomic confrontation	3 Interstate conflict
43	Cyprus	1 Rapid and/or sustained inflation	2 Cost-of-living crisis	Failure of climate-change adaptation
44	Albania	2 Infectious diseases	2 Failure of cybersecurity measures	3 Rapid and/or sustained inflation
45	Malta	1 Cost-of-living crisis	2 Human-made environmental damage	3 Rapid and/or sustained inflation
46	Mongolia	1 Debt crises	2 Human-made environmental damage	3 Geoeconomic confrontation
47	Armenia	1 Interstate conflict	2 Rapid and/or sustained inflation	3 Erosion of social cohesion
48	Kyrgyzstan	1 Interstate conflict	2 Debt crises	3 State collapse
49	Moldova	1 Debt crises	2 Human-made environmental damage	3 Geoeconomic confrontation
50	Georgia	1 Cost-of-living crisis	2 Interstate conflict	3 Geoeconomic confrontation

Compiled by the author based on materials World Economic Forum.

In 10 countries where the GDP is in the range of 50-10 billion US dollars, out of 30 main indicators, 9 are economic, i.e. 30.0%.

Based on the brief analysis above, there is a pattern in which economic risks become less relevant in the poorest countries. Therefore, we can conclude that the severity of economic risks decrease as the country's GDP reduces (or as wealth decreases) and vice versa. Is it accurate to conclude that challenges are usually linked to developed countries? And is it reasonable and fair to ignore other problems? Including technological risks, such as digital inequality or the breakdown of critical infrastructure.

Since this is a separate and more serious problem and it is not the purpose of our study, we should set aside this question for now and return to economic issues. Of the economic risks, the most common problems are inflation and the debt crisis.

Thus, in the G 7 countries, out of 14 economic risks, 6 are inflation and 5 are debt crises.

In the G20 countries, out of 33 economic risks, 15 are inflation and 9 are debt crises.

In G20 countries, but without G7 countries, out of 19 economic risks, 9 are inflation and 4 are debt crises.

In 10 countries where the GDP is in the range of 500 – 100 billion US dollars, out of 13 economic risks, 7 are inflation, and 0 are debt crises.

In 10 countries where the GDP is in the range of 100 - 50 billion US dollars out of 12 economic risks, 4 are inflation, and 4 are debt crises.

In 10 countries where the GDP is in the range of 50 – 10 billion US dollars, out of 9 economic risks, 5 are inflation, and 3 are debt crises.

Our research has revealed that for majority of developed countries worldwide, economic risks, which are expressed in the expected high rates of inflation and increasing amount of public debt are the most pressing. For the other majority, geopolitical and social challenges are no less acute.

It is reasonable to assume that it is necessary to prepare for challenging time. Existing challenges necessitate diverse methodologies and strategies for their solution. At any case, for any solution, appropriate resources are needed. In this regard, it seems interesting to analyze the size and structure of reserves, including international reserves.

It should be noted that the world official foreign exchange reserves reached more than 12 trillion US dollars at the end of the first quarter of 2023. Most of that (92.6% or 11.1 trillion Us dollars) were represented as the allocated reserves (it's means claim in U.S. dollars, in euro, in Chinese renminbi, in Japanese yen, in pounds sterling, in Australian dollars, in Canadian dollars and in Swiss francs) and other (7.4% or 0.9 trillion Us dollars) as the unallocated reserves. See table 2 and 3 [6.]. It should also be noted that the distribution ratio decreased over the reporting period. So, if in 2018 it was equal to 93.8% (10.7 trillion dollars), in 2023 it was 92.6%. Consequently, the share of unallocated reserves increased from 6.2% ($706.4 billion) in 2018 to 7.4% ($889.1 billion) in 2023/Q1. It means that the total amount of unallocated reserves has increased for more than 180 billion US dollars in last five years. In our point of view, it testifies some uncertainty toward leading financial institutions that are responsible for the financial flows in the world. The sum of this uncertainty equals approximately 180 billion US dollars.

Let's get back to the World Currency Composition of Official Foreign Exchange Reserves and note that the US dollar again occupies the leading position in it. So, in 2018 it was 62.0% (6.624 trillion dollars), where the currency of the European Union (with 20.7% - 2.217 trillion dollars) occupies the second position etc. [for more details, see table. 2 and table. 3].

Table 2. World Currency Composition of Official Foreign Exchange Reserves, US Dollars, Millions.

	2018 Q4	2019 Q4	2020 Q4	2021 Q4	2022 Q4	2023 Q1
Total Foreign Exchange Reserves	11432600.2	11822311.6	12700468.2	12918532.1	11914285.5	12039600.4
Allocated Reserves	10726222.5	11071545.1	11867171.0	12049600.1	11038665.6	11150530.9
Claims in U.S. dollars	6624672.1	6725710.8	6992187.3	7085003.6	6466860.6	6580558.9
Claims in euro	2217578.0	2279459.2	2526410.5	2481340.1	2248354.7	2204666.8
Claims in Chinese renminbi	203085.0	214460.9	271601.5	337259.8	287690.3	288072.3
Claims in Japanese yen	556905.6	649762.8	715348.0	665102.8	607303.2	609469.3
Claims in pounds sterling	474875.8	513518.3	561388.0	579381.7	541309.6	541122.3
Claims in Australian dollars	174463.0	187881.7	216870.6	221321.1	216595.0	221103.6
Claims in Canadian dollars	197216.3	205988.9	246567.2	286932.1	262740.3	270749.9
Claims in Swiss francs	14782.4	16564.4	20738.3	20788.8	25317.8	27674.1
Claims in other currencies	262644.2	278198.3	316059.5	372470.1	382494.0	407113.6
Unallocated Reserves	706377.7	750766.5	833297.2	868932.0	875619.9	889069.5

Compiled by the author based on materials IMF. https://data.imf.org/regular.aspx?key=41175.

Table 3. World Currency Composition of Official Foreign Exchange Reserves, %.

	2018 Q4	2019 Q4	2020 Q4	2021 Q4	2022 Q4	2023 Q1
Shares of Allocated Reserves	93.8	93.6	93.4	93.3	92.7	92.6
Shares of U.S. dollars	62.0	60.7	58.9	58.8	58.6	59.0
Shares of euro	20.7	20.6	21.3	20.6	20.4	19.8
Shares of Chinese renminbi	1.9	1.9	2.3	2.8	2.6	2.6
Shares of Japanese yen	5.2	5.9	6.0	5.5	5.5	5.5
Shares of pounds sterling	4.4	4.6	4.7	4.8	4.9	4.9
Shares of Australian dollars	1.6	1.7	1.8	1.8	2.0	2.0
Shares of Canadian dollars	1.8	1.9	2.1	2.4	2.4	2.4
Shares of Swiss francs	0.1	0.1	0.2	0.2	0.2	0.2
Shares of other currencies	2.4	2.5	2.7	3.1	3.5	3.7
Shares of Unallocated Reserves	6.2	6.4	6.6	6.7	7.3	7.4

Compiled by the author based on materials IMF. https://data.imf.org/regular.aspx?key=41175.

The picture has not changed significantly in the last 5 years. The US dollar, again, occupies the leading position in the first quarter of 2023. But at the same time, it should be pointed out that its share decreased (about 3 percent) slightly compared to 2018 and amounted to 59.0%. The share of

Euro also slightly decreased (about 1 percent), which reached 19.8%. Relative to other currencies, as you can see (see table 2 and 3), there is no reduction. We can even state the certain growth toward the other currencies. Moreover, the largest is accounted for the currency of China.

As we can see, there is a certain growth concerning the share of other (alternative) currencies (Chinese renminbi, Japanese yen, Pounds sterling, Australian and Canadian dollars and Swiss francs). In particular, they increased from 2.4% ($262.6 billion) in 2018 to 3.7% ($407.1 billion). So, we are seeing an increase of 1.3%, which in the absolute terms equals to $144.5 billion.

Therefore, with a certain degree of probability, we can assume that skepticism toward existing sources of accumulation and distribution of official foreign exchange reserves are growing day by day. The total amount of that skepticism in the last five years is expressed in a specific amount, which is equal to $ 144.5 billion. Above, we calculated very specific figure of $182.7 billion. There is skepticism about whether it is worth using the existing institutions for the accumulation and distribution of foreign exchange reserves. As a result, if we summarize our figures, we get a very decent amount of more than $300 billion ($327.2 billion).

Let's get back to our analysis and narrow down the research area. We should consider the currency structure of the reserves according to SDR[1] basket and in the non-SDR basket.

Based on IMF materials, we have compiled Table No. 4 (Currency composition of reserves) based on IMF materials. As we can see, reserves in currencies included in the SDR basket are growing (no data for 15 countries). The exception is Turkey, where the reserves in the SDR basket has decreased from $109.3 billion in 2015 to $89.8 billion in 2023. It is also noteworthy that the foreign exchange reserves are growing as in SDR basket as non-SDR basket in the 21 countries in the end of 2023.We should also pay attention to the fact that in 12 countries (UK, Australia, Greece, Hungary, Romania, Slovakia, Lithuania, Costa Rica, Latvia, Albania, Malta, Armenia) foreign exchange reserves are growing faster not in SDR basket. It is necessary that Turkey should be added to the countries mentioned above, where the reserves in SDR basket are decreasing, while the reserves non-SDR basket are growing. As a result, we can see that the reserves, which are not included in SDR basket, are growing in at least 13 countries out of 50. This research proves that in more than a quarter (26%) of the countries there is some skepticism regarding SDR basket. For them the placement of their foreign exchange reserves in SDR basket are not so acceptable. The figure above should be even higher as the data is missing from 15 countries out of 50.

Table 4. Currency composition of reserves (by Group of Currencies) In Millions of US Dollars.

		2015		2018		2023	
	Country	Currencies in SDR Basket	Currencies not in SDR Basket	Currencies in SDR Basket	Currencies not in SDR Basket	Currencies in SDR Basket	Currencies not in DR Basket
1	2	3	4	5	6	7	8
1	Canada	79,753.0	0.0	83,926.0	0.0	114,284.0	0.0
2	France	130,421.0	7,748.0	159,332.0	7,337.0	216,186.1	9,447.2
3	Germany	172,513.0	1,169.0	197,027.0	1,215.0	n/a	n/a
4	Italy	128,040.9	2,729.1	149,484.5	3,021.0	229,393.4	4,213.6
5	Japan	n/a	n/a	n/a	n/a	n/a	n/a
6	UK	155,439.0	440.0	191,999.0	5,365.0	191,449.0	15,595.0
7	USA	118,457.4	0.0	124,984.6	0.0	242,731.1	0.0
8	Argentina	17,807.5	7,755.9	65,763.6	22.2	27,917.0	8.9

[1] The SDR is an international reserve asset. The SDR is not a currency, but its value is based on a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

Table № 4. Continuation.

1	2	3	4	5	6	7	8
9	Australia	42,770.1	2,952.4	51,111.9	2,762.5	54,496.6	4,785.5
10	Brazil	332,686.2	23,777.5	371,977.8	2,737.0	337,254.7	6,233.8
11	China	3,122,841.0	283,269.0	2,909,494.0	258,499.0	n/a	n/a
12	India	n/a	n/a	n/a	n/a	n/a	n/a
13	Indonesia*	92,842.0	18,087.7	110,097.5	10,556.8	n/a	n/a
14	Mexico	170,397.9	7,198.8	171,366.4	5,017.7	205,764.8	1,696.6
15	Russian Fed.	353,540.7	14,858.0	452,548.3	15,946.7	n/a	n/a
16	Saudi Arabia**	730,389.0	4,110.6	490,250.5	4,250.8	n/a	n/a
17	S. Afrika	43,403.0	2,383.0	49,790.0	1,851.0	58,434.0	3,115.0
18	S.Korea	336,676.0	31,286.0	381,237.3	22,457.0	391,418.0	30,036.0
19	Turkey	109,299.0	1,234.0	88,566.0	4,461.0	89,791.0	18,789.0
20	EU	682,087.0	19,298.0	795,459.0	27,854.0	n/a	n/a
21	Austria	16,673.4	5,563.3	17,705.1	5,504.0	29,176.3	1,475.6
22	Czechia	45,350.8	19,140.2	121,587.2	20,925.1	124,800.6	16,465.4
23	Finland	9,988.8	24.4	10,308.9	0.0	16,548.7	0.0
24	Greece	6,026.0	0.0	7,552.0	33.0	12,860.0	209.0
25	Hungary	31,875.9	1,135.7	28,765.1	2,611.4	36,015.1	7,307.7
26	Iran	n/a	n/a	n/a	n/a	n/a	n/a
27	Romania	37,989.7	642.9	39,825.3	2,310.9	58,288.7	6,110.2
28	Ukraine	13,016.7	283.3	20,786.5	33.9	36,992.9	33.7
29	Kazakhstan	27,109.7	765.9	30,126.1	801.0	34,177.0	279.8
30	Slovakia	2,873.6	0.5	5,229.9	0.5	10,054.8	97.5
31	Bulgaria	22,083.7	1.0	28,711.6	0.6	38,292.5	0.0
32	Lithuania	1,696.6	0.3	5,225.4	546.1	5,290.5	585.8
33	Serbia	n/a	n/a	n/a	n/a	n/a	n/a
34	Azerbaijan	n/a	n/a	n/a	n/a	n/a	n/a
35	Congo (Dem.)	n/a	n/a	n/a	n/a	n/a	n/a
36	Slovenia	853.7	2.8	934.3	0.3	2,359.4	0.0
37	Sri Lanka	n/a	n/a	n/a	n/a	n/a	n/a
38	Angola	n/a	n/a	n/a	n/a	n/a	n/a
39	Panama	n/a	n/a	n/a	n/a	n/a	n/a
40	Costa Rica	7,687.5	146.6	7,281.9	219.0	10,878.2	261.8
41	Latvia	3,236.7	209.0	3,956.0	415.0	4,322.5	436.8

Table № 4. Continuation.

1	2	3	4	5	6	7	8
42	Estonia	308.6	106.5	633.3	122.1	1,852.9	600.7
43	Cyprus	806.0	0.2	927.8	0.1	1,775.3	0.1
44	Albania	3,138.6	0.0	3,843.3	51.4	5,231.6	49.0
45	Malta	547.6	24.2	755.7	269.4	771.0	514.0
46	Mongolia	n/a	n/a	3,549.3	0.3	3,810.6	1.3
47	Armenia	1,770.6	0.6	2,247.7	1.7	3,742.3	6.3
48	Kyrgyzstan	1,096.0	587.0	1,723.0	346.0	2,168.8	193.7
49	Moldova	1,756.7	0.1	2,995.2	0.0	4,902.7	0.0
50	Georgia	2,239.6	280.0	2,999.8	290.0	4,958.9	107.8

Compiled by the author based on materials IMF. https://data.imf.org/regular.aspx?key=61280812

Comparing the data of 2018 and 2023, we can calculate the value of this skepticism. According to our calculation, it is at least $48.5 billion. Adding this amount to the previously obtained value ($327.2 billion), we get $375.5 billion, which expresses the distrust of some countries towards the existing order of things.

Returning to the main challenges, the 13 countries listed above face, it should be pointed out that in the top three of the main risks at the first place are economic problems (12 challenges), which is equal to 30.8 percent [13 countries with 3 main challenges, a total of 39 challenges, therefore 12/ 39*100). As a result, we can make one assumption - as economic problems increase, the distrust in the existing system of distribution of financial flows will increase, too.

Conclusion.

In conclusion, it should be pointed out that economic risks are most acute for the developed (rich) countries. When wealth grows, so do economic challenges, primarily inflation and rising public debt.

As economic problems grow, the distrust in the existing system of distribution of financial resources grows, too. Taking into consideration all mentioned above, it is advisable to review and improve the theoretical and methodological basis and practice of placing official international foreign reserves. We should also keep in mind that they poorly reflect the existing realities of our time.

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