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THE INCOMING REVOLUTION IN THE WORLD BANKING AND FINANCIAL SYSTEM

Abstract:
Manifold and ongoing developments seem to hint that humanity is just ahead of historic shifts in global banking as well as the financial system. The landmark changes at this moment are unavoidable. The ultra-loose monetary policies practiced by the leading central banks in recent years for a record-breaking period have not resulted in a permanent enhancement of the global economic situation but barely extended the inevitable agony of the current global financial system for additional several years. The COVID-19 pandemic and resultant global economic crisis only made things worse. These simple facts beg the following questions: what future global financial system would probably look like? What currency is going to substitute the role hitherto fulfilled by the crumbling U.S. dollar? How painful the upcoming giant changes will be for societies? What the incoming revolution in geo-economics will mean for geopolitics? Unfortunately, financial boom and bust cycles are not the thing of the past but rather seem to be inextricably linked to the way the modern financial system works. This decisively needs to be reformed. The harbingers of epochal changes are on the horizon. The author will describe them in the paper.

Keywords:
finances, banking, crisis, financial crisis, banking crisis, international economics

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Introduction

Whilst studying the subject matter of contemporary international financial relations I have propounded the following research questions I would like to briefly answer in the paper: What future global financial system would probably look like? What currency is going to substitute the role hitherto fulfilled by the crumbling U.S. dollar? How painful the upcoming giant changes will be for societies? What the incoming revolution in geo-economics will mean for geopolitics?

The text proceeds in three basic chapters. In the first chapter, I raise the topic of the U.S. dollar which is gradually ceasing to be the dominant world currency. I argue that several clues and cues are implying that the dollar rather sooner than later will stop being the main reserve currency of the globe. According to me, the most probable substitution to the dollar in this crucial role will be special drawing rights. One of the premises inducing such conclusion was the unexpected sell-off of the U.S. Treasuries by the central banks of the leading world economic powers during the years 2014-2016.

In the second section, I argue that gold once again is becoming the salient financial asset and will have a central role in the new global monetary system emerging on the horizon. I also explain why the price of gold has been artificially kept down for an extended period in the latest decades.

In the third chapter, a question of the crisis of the Western banking system has been addressed. I contend that the often illegal and immoral activities of the biggest Western banks in recent years have led to – hard to understate – the loss of their credibility and reliability among their clients. That in turn significantly heightened the risk of possible bank runs in the not so far future. I claim that there is no painless solution to the current huge troubles of the Western banks. I have focused in this chapter on two financial institutions – Deutsche Bank and Banco Monte dei Paschi di Siena as excellent examples of the degeneration of the Western banking practices. I have also enumerated in this chapter five principal solutions that must be essentially done if we seriously intend to repair the Western banking system.

The collapse of the U.S. dollar as the leading global reserve currency

Presently, the dollar is unquestionably the most important and the dominant world reserve and trade currency. Suffice it to say, the states in which currencies are pegged to the dollar every year generate approximately one-third of overall global production. About 39% of the global debt is denominated in dollars. Almost two-thirds (63.4% to be precise) of the global foreign exchange reserves is the currency issued by the U.S. central bank[2]. On top of that, the dollar remains the dominant currency in the extraordinarily salient oil market.

Over the years 2014-16 U.S. Treasuries have been dumped by the foreign central banks on an unprecedented scale. Since 1977, when the first relatively exact data concerning U.S. Treasuries net buying by foreign subjects began to be collected regularly[3], we did not witness such a sell-off of the U.S. bonds by foreign central banks. Demand for the U.S. government bonds among foreign central banks – and probably also, however to a lesser extent, among foreign sovereign wealth funds – broke down. Although the demand on the U.S. Treasuries coming from foreign private investors is still rather high, the facts drafted above ought to be treated as a severe warning for the U.S. government which if neglected, may lead to pernicious and deleterious ramifications. Purchasing U.S. Treasuries may appear no longer safe and, consistently, a rising number of leading financial actors lose trust in the U.S. dollar.

Among the leading central banks unloading dollars in the last two years from their foreign exchange reserves are People's Bank of China (PBoC), Bank of Japan (BoJ), Saudi Arabian Monetary Authority (SAMA), Central Bank of Brasil (CBoB), Bank of France (BoF) and Central Bank of Russia (CBoR)[4]. Saudi Arabia by selling U.S. Treasuries mainly patches up the budget[5]. The plunge in oil prices decisively took its toll on the Saudi economy. The reasons that drive other central banks to sell are more nuanced and not always easy to unravel.

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[2] *When the Dollar's Strength Is a Weakness*, <https://webcache.googleusercontent.com/search?q=cache:oHcueADuKsYJ:https://www.stratfor.com/analysis/when-dollars-strength-weakness+&cd=1&hl=pl&ct=clnk&gl=pl> (15.11.2020).

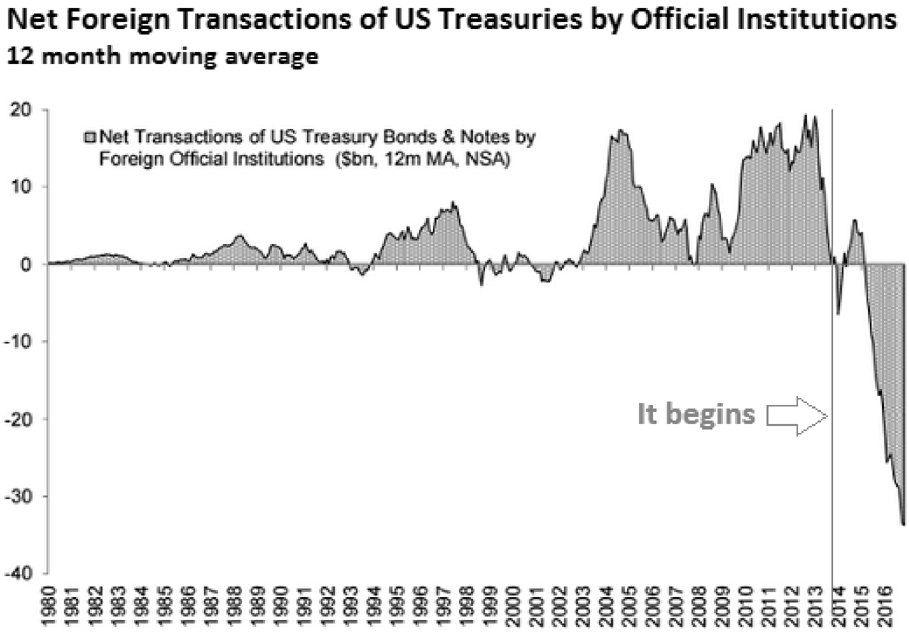
[3] *China Now Dumping Unprecedented Amounts Of U.S. Treasuries,* <http://kingworldnews.com/china-now-dumping-unprecedented-amounts-u-s-treasuries/> (15.11.2020).

[4] *Dollar tonet: Rossiya i Kitay sbrasyvayut gosobligatsii SSHA,* <http://planet-today.ru/stati/finansy-i-krizis/item/59658-dollar-tonet-rossiya-i-kitaj-sbrasyvayut-gosobligatsii-ssha?utm_medium=referral&utm_source=lentainform&utm_campaign=planet-today.ru&utm_term=136374s7953&utm_content=4952446> (16.11.2020).

[5] W. Zieliński, *Banki centralne pozbywają się amerykańskich skarbówek jak nigdy dotąd,* <http://www.rp.pl/Finanse/309269950-Banki-centralne-pozbywaja-sie-amerykanskich-skarbowek-jak-nigdy-dotad.html#ap-1> (18.11.2020).

It is quite difficult to determine exactly who and in what exact quantity holds the U.S. T-Bills, T-Notes and T-Bonds. The U.S. Department of Treasury has at its disposal – at least officially – merely data about accounts with U.S. Treasuries conveyed to it by brokers and custodians functioning in the U.S. Nevertheless, for the lack of more reliable and trustworthy data, we have to rely on the only accessible ones.

Figure 1. Net Foreign Transactions of U.S Treasuries by Official Institutions over the Years 1980-2016.



Source: *Wolf Street*, <http://wolfstreet.com/2017/02/09/foreign-governments-sell-u-s-treasuries-as-never-before-but-who-buys-them/> (11.11.2020).

The conventional explanation of the sell-off of mostly long-and mid-term U.S. Treasuries by the People's Bank of China says that it is a result of Beijing's intention and urgent need to prop up weakening China's currency. To prevent the devaluation of the yuan the PBoC simply increases the supply of U.S. dollars by selling U.S. Treasuries denominated in dollars from its reserves. Because the pressure for devaluation of the yuan remains strong in recent months Chinese central bankers willy-nilly are compelled to sell a lot of Treasuries to shore the yuan up and defend the currency peg. There is probably a grain of truth in this explanation, however, this eclaircissement seems to completely omit other important factors. From an analytical standpoint, not taking into account these factors may later turn out to be a severe mistake.

Undoubtedly, in recent years there has been a growing apprehension among Chinese financial and political elites that the People's Republic of China became too much dependent on the U.S. dollar. By allocating so many dollars in its official reserves China became excessively vulnerable for the contingency of a drastic and deep depreciation of the U.S. dollar against other currencies, including the yuan. That means, that in case of substantial loss of value by the U.S. dollar, especially during a relatively short time, China would suffer a serious and tangible loss. Hundreds of billions of dollars so stringently amassed for decades in PBoC's reserves would in such a scenario lose a significant portion of its real value. Colloquially speaking, if such an eventuality materializes, the Middle Kingdom would be stood up by the U.S. That would mean that China had exported real, touchable goods to the U.S. over decades in exchange for paper dollars worth not much. But that is not the only reason why China is not interested in the radical depreciation of the dollar relative to the renminbi. The other, equally important, the reason is that the greatly cheaper dollar would automatically and inescapably entail the much smaller exports of Chinese goods to the United States and – in consequence – significantly inhibit China's economic growth[6]. That, in turn, would lead to the rise in unemployment and would make anti-government protests in the PRC more likely.

One might argue that a scenario of fast and deep loss of purchase parity by the U.S. dollar is very improbable. Is that so? We should all keep in mind that since 2008 the Federal Reserve emitted a giant amount of dollars in four rounds of unconventional monetary policy known as Quantitative Easing. After the COVID-19 pandemic took place the Fed additionally injected $1.5T into the U.S. economy. In the process, it vastly augmented its balance sheet. Despite the so far gigantic increase in U.S. money supply – much to the surprise of many – did not bring about a significant increase of the inflation in the United States, it can be almost totally explained by the fact that the bulk of this newly printed money conveyed to commercial banks has been stashed by them at special non-obligatory accounts in the Fed instead of lent to borrowers. This led to a slump in inflation, though a temporary one. Moreover, it needs to be

[6] P. Furgacz, *The Economic Relations of the United States and China over the Years 2005–2015*, [in:] Żakowski K., *Changing Determinants of Foreign Policy in East Asian Countries*, Lodz 2016, p. 37.

recalled in this context that there is always a shorter or longer time lag between monetary growth and inflation. Even more symptomatic in this context are Donald Trump's announcements that the U.S. dollar is significantly overvalued – which is correspondent to the facts – and that it must be substantially depreciated to give U.S. exports a boost and to diminish U.S. imports to finally erase huge and persistent U.S. trade deficits. Chinese authorities certainly noticed these statements.

In October 2016 China ceased to be the biggest external holder of the U.S. government debt. It was replaced by Japan[7]. Whereas in November 2013 Mainland China held $1316.7B of U.S. Treasuries at the end of 2016 it possessed merely $1058.4B of U.S. Treasuries[8]. At the end of November 2020, China held $1063.0B of U.S. Treasuries. In other words, China diminished its exposure to the U.S. debt over the 7 years from November 2013 to November 2020 by 19.27%. Prima facie, it may appear that it is not so much. However, here two relevant aspects need to be highlighted. There are some natural limits of dumping U.S. Treasuries that China cannot excel without impinging upon its national interests and harming itself acutely. First of all, in 1977 the U.S. Congress passed a law entitled International Emergency Economics Power Act. The aforementioned law gives the American president a prerogative to freeze any banking and broker account in any financial institution in the United States if he deems the financial transactions carried out by foreign and domestic subjects are unfriendly and threaten to destabilize the U.S. financially. Thus, if the People's Bank of China suddenly decides to dump the unreasonably high amount of U.S. Treasuries provoking a market collapse for U.S. government debt, the president swiftly and unavoidably would block all the accounts from which the Chinese would conduct the destabilizing sell-off of U.S. Treasuries. One should keep in mind that the Americans de facto control all systems of dollar payments in the world. Secondly, it does not lie in the interest of China to make for the sudden and deep plunge in prices of U.S. government debt because in such a tumble it would incur significant and unnecessary losses. In contrast, it is in the interest of China to sell U.S. Treasuries when their prices are quite high and when the U.S. dollar is strong against other currencies. At the turn of 2016 and 2017, we witness exactly such a situation. That is why getting rid of U.S. Treasuries presently can be

[7] *Major Foreign Holders of Treasury Securities*, <http://ticdata.treasury.gov/Publish/mfhhis01.txt> (20.11.2020).
[8] *Ibidem.*

interpreted as a prudent investment decision[9]. The dumping of U.S. T-Bills by, among others, China together with the rise in U.S. interest rates led to an increase in the yields of the 10-year T-Bill from 1.46% in June 2016 to 3.11% in November 2018. Admittedly later yields of the 10-year T-Bill decreased to 0.88% in November 2020, we may predict that very soon they are to go up again in a fast tempo, especially in the first quarter of 2021. To put it simply, it appears that China was selling U.S. government bonds in the years 2016-18 at a maximum tempo it can do without harming itself concurrently. This pattern may be repeated by Beijing in the future, particularly if the bilateral U.S.-China relations would deteriorate even more than during the Trump administration.

If the U.S. dollar consistently loses its credibility as the leading global reserve currency, it begs a question of which currency could replace the dollar in this key financial role. The economy of the issuer of the dominant global reserve currency should be large. At the moment solely the eurozone and China have comparably large economies as the U.S. However, the eurozone desperately fights for survival and its future as a unified economic bloc is on a knife-edge, especially after the COVID-19 pandemic hit the European economy painfully. Western European banks are in even more dismal condition than their equivalents across the pond. As concerns China, currently, approximately 81% of world trade settlements are conducted in U.S. dollars, whereas just 9% is carried out in renminbi[10]. In the long run, Beijing intends to substitute the U.S. dollar with the yuan as the leading global currency. Nonetheless, to achieve this aim the Middle Kingdom has to firstly accomplish the following smaller objectives:

- Transform the PRC's capital market in such a way to make it attractive for investors from every corner of the world as well as make it deep and friendly enough, especially for foreigners. In particular, the PRC needs to create a sufficiently deep and liquid government bond market comparable to that of the United States;
- Make the Chinese currency freely and fully convertible in international and domestic markets which in practice is

[9] W. Richter, *Foreign Governments Dump US Treasuries as Never Before, But Who the Heck is Buying Them?*, <http://wolfstreet.com/2017/02/09/foreign-governments-sell-u-s-treasuries-as-never-before-but-who-buys-them/> (10.11.2020).

[10] J. Nye Jr., *Is the American Century Over?*, Cambridge–Malden 2015, p. 51. Other data are a little bit different. For instance Stratfor claims that dollar is involved in more than 85 percent of foreign exchange trades. See: *When the Dollar's Strength Is a Weakness, op. cit.*

tantamount to putting an end to a currency peg of yuan to U.S. dollar and giving up on any form of capital control;

- Significantly augment the usage of the renminbi in trade and financial transactions abroad with a simultaneous decrease in the employment of dollars as a principal trade currency.

All the above-mentioned objectives cannot be brought into effect quickly. Of course, China's financial and political authorities started to do measurable efforts to fulfill these aims being governed by the adage from ancient China that 'a journey of a thousand miles begins with a single step', nonetheless, this process is certainly going to take a lot of time.

The logical conclusion is that there is no currency at the moment that could dethrone the U.S. dollar in the short to medium term. Having said that, I must add that we also have at our disposal the special drawing rights (SDRs) which are emitted by the International Monetary Fund. Probably the SDRs are the best candidate for a new leading global reserve currency. A growing amount of pundits pays attention to such a possibility[11]. Nowadays, the basket of SDRs consists of dollars, euros, yuans, yens, pounds sterling in strictly specified weighs. The dollar accounts for 41.7%, the euro 30.9%, the yuan 10.9%, the yen 8.3%, and the pound sterling 8.1% of the total basket's value. Mainland China with its renminbi in November 2016 has joined the prestigious club of countries that could boast having their currencies in the SDR basket. Even though currently the SDR bond market is very small and not much diversified in comparison to the U.S. Treasury market, this can change swiftly if the governments of leading world powers would take appropriate decisions. Arguably, over time the composition of the SDR basket will be gradually changing in favour of yuan and concurrent disfavor of the dollar as well as euro.

Some signs are indicating that the International Monetary Fund is increasingly becoming a kind of world central bank. IMF often appears as the lender of last resort in financial crises. However, currently, the IMF fulfills primarily the interests and wishes of the richest Western powers which find a reflection in the structure of voting right – it is heavily skewed in favor of the U.S., Japan, Germany, the United Kingdom, and France to the prejudice of China, India, Russia, Brasil, and other emerging economies. The fact that the voting power of China in the

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[11] See for example: *Turkey Maneuvers to Escape Its Dollar Trap*, <https://www.stratfor.com/geopolitical-diary/turkey-maneuvers-escape-its-dollar-trap+&cd=1&hl=pl&ct=clnk&gl=pl> (6.12.2020).

organization is only 6.41%, whereas U.S. voting power is at the level of 17.44%[12] is meaningful because both economies are comparable in terms of their significance to the world. China is only slightly less important than the U.S. in this respect and it advanced vastly in the unofficial rankings of the most influential and germane economies for the world over the last three decades.

To conclude, the exorbitant privilege – as the French Minister of Finance Valéry Giscard d'Estaing famously called it – of Washington enjoying U.S. dollar status as the main international reserve currency has been vanishing step by step. The U.S. dollar's days as the indisputable principal global reserve currency are numbered. Too many doubts arose about the Fed's monetary policy, the U.S. chronic budget deficits and ever-growing U.S. government debt, particularly after the COVID-19 pandemic battered the world economy. As well, too many influential and powerful political actors like China, Russia, Iran – and even Turkey in last years[13] – have set off a chain of events to undermine the U.S. dollar privileged position in global finances. This process is inevitable despite expected Washington's ferocious efforts to stop or – at the minimum – slow it down.

The return of the gold as the salient financial asset

The thesis that gold once again comes back as the most germane financial asset can be corroborated by the symptomatic shift in the central banks' official net gold purchases. Whereas in 2005 central banks all over the globe net sold a record quantity of 663 metric tons of gold, a decade later they bought 588 tons of the same yellow metal (see Figure 1 for comparison). With hindsight, some decisions of the central banks now seem to be extremely foolish. For instance, the chancellor of the British exchequer Gordon Brown in 1999 decided to sell approximately two-thirds of Great Britain's gold reserves at extremely low prices. Similarly, Switzerland also sold a lot of its gold holdings in the first years of the

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[12] *IMF Members' Quotas and Voting Power, and IMF Board of Governors,* <https://www.imf.org/external/np/sec/memdir/members.aspx> (20.11.2020).

[13] For instance, on December 2016 the Turkish president Recep Tayyip Erdogan commanded the biggest Turkish corporation to expeditiously convert their dollar holdings to Turkish lira – a one another blow to the position of U.S. dollar. The Turkish companies eagerly fulfilled the order. With this action Turkey de facto joined the group of nations wanting and acting to weaken the global status of dollar. See: *Turkey Maneuvers… op. cit.*

2000s when the gold prices were exceptionally low. However, nowadays this inclination to get rid of gold from official national reserves ended. For years the gold market has been manipulated and gold prices have been artificially suppressed by COMEX, ETFs, bullion banks, hedge funds, and – most importantly – the leading central banks as well as the Bank for International Settlements. The major manners in which manipulations could be employed are leasing unallocated forwards, manipulation through stop-loss limits, and paper manipulation through COMEX futures[14]. The U.S. and China have been vitally interested in gold price suppression, but paradoxically, for completely different and opposing causes. To make a long story short – the U.S. perceives gold as an alternative and competitor to the U.S. dollar. Hence, Washington is not interested in the rise of gold prices because such prospective increases – especially if drastic and serious – would make for undermining the confidence and trust in U.S. currency, the credibility of which is dependent to a substantial degree on its stability and attractiveness of potential alternatives to it. Beijing, on its part, also wants to keep gold prices low as much as possible because it is constantly buying huge amounts of gold on international markets, mostly in secrecy. It is an open secret that the PRC in reality holds much, much more gold than it officially admits. China declares that it possesses 1,948 metric tonnes of gold[15]. Beijing asserts that since the end of 2016 it only increased its gold reserves by 105,4 tonnes of gold, which hardly any expert believes. Unofficially, China has gathered closer to 12,000 tonnes of gold, which would make it by far the largest gold holder on the globe[16]. What is more, Mainland China perpetually and consistently purchases new gold bars to further augment its holdings. Beijing is interested in buying gold cheaply, thus it has been purchasing the precious metal quietly, without unnecessary publicity, usually using discreet intermediaries in the process. Due to such actions, it can buy

[14] All the aforementioned ways of gold price manipulation have been thoroughly and convincingly described by James Rickards in his book *The New Case for Gold* in chapter 4 "Gold Is Constant". See: J. Rickards, *The New Case for Gold,* New York 2016, pp. 88-115.

[15] *Top 10 Countries with Largest Gold Reserves,* <https://www.usfunds.com/investor-library/frank-talk-a-ceo-blog-by-frank-holmes/top-10-countries-with-largest-gold-reserves/> (15.11.2020).

[16] E. von Greyerz, *ALERT: China Now Possesses Up To A Shocking 12,000 Tonnes Of Gold And Last Week's Takedown Was The Desperate BIS*, <https://kingworldnews.com/alert-china-now-possesses-up-to-a-shocking-12000-tonnes-of-gold/> (10.11.2020).

gold cheaper and, additionally, without unnerving or annoying the world superpower.

The Russian Federation’s central bank has bought more than 1,000 tonnes of gold over the previous seven years. Even more symptomatic are the purchases on the part of the Middle Kingdom. The PBoC has purchased at least 3,000 tonnes of gold over the same period. Together Russian and Chinese gold acquisitions account for more than one-tenth of all the official gold in the globe. In addition to that, according to a respected financier James Rickards, Beijing on the quiet has also purchased huge – though not specified – sums of SDRs in nonpublic secondary market transactions brokered by the IMF[17]. In this context, we should underline two exceptionally germane issues. First and foremost, both Russia and China are geopolitical rivals of the West in general and the U.S. in particular. They are interested in undermining the position of the U.S. dollar – at least to some degree. Second, both states could boast about very effective intelligence services able to discover the true condition of the Western financial system. Therefore, the aforementioned immense purchases of gold can be properly interpreted as a preparation for the incoming of the new great financial crisis that would eclipse the previous ones. As James Rickards remarked, the key to wealth preservation is to move out of the declining form of money — dollars — and into the rising forms of money — gold and SDRs — sooner, rather than later[18]. This elucidation of Beijing’s and Moscow’s financial activities sounds quite convincing and coherent. Constant purchase of gold and – to a smaller extent – SDRs are the response on the part of China and Russia for the anticipated debasement of dollars and the breakdown of the global financial system, which core is the financial system of the West. Many other smaller and less powerful states for some time have been on a buying spree of gold. For instance, several years ago the authorities of Kyrgyzstan, except for adding new gold to its official reserves, also started to encourage their citizens to put their savings away in gold[19]. The above-mentioned facts imply that the future role of gold in the world monetary system will be crucial. Many states secretly prepare

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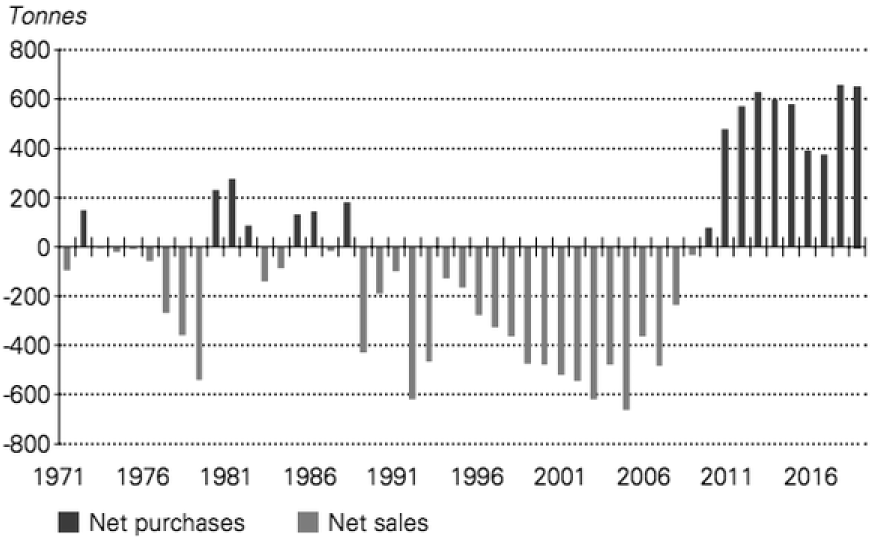
[17] J. Rickards, *The 4-Front Assault on the Dollar,* <https://dailyreckoning.com/4-front-assault-dollar/> (5.11.2020).

[18] *Ibidem.*

[19] K. Kolany, *Sto gramów złota dla każdego. Gdzie? W Kirgistanie,* <http://www.bankier.pl/wiadomosc/Sto-gramow-zlota-dla-kazdego-Gdzie-W-Kirgistanie-7500251.html> (7.11.2020).

for a huge reset in the global financial system[20], among other things, by the accumulation of gold. All in all, the present global financial system with fiat currencies at its core is an exception – not the rule – in the monetary history of the world.

Figure 2: Central bank gold buying 1971-2019.



Source: R. Pakiam, E. Mazneva, *Central Bank Gold-Buying Seen Climbing From Near Decade Low*, <https://www.bloomberg.com/news/articles/2020-09-29/gold-buying-by-central-banks-seen-climbing-from-near-decade-low> (12.12.2020).

The crisis of the Western banking system

Many banks across the Atlantic ocean desperately fight for survival. Scrutiny at the Western European banks reveals that in many cases they are moribund. For that matter, a lot of Western bankers deserve berating at a minimum. Amid European banking systems, particularly the Italian banking system presents spasms of close collapse. It is estimated that

[20] This huge reset of the global financial system is sometimes called 'the Great Reset' – a term popularized by the World Economic Forum.

non-performing loans of European banks are worth €1.3B[21], which unquestionably is an enormous amount. In the Italian case, non-performing loans account for 17% of all loans given by Italian banking institutions. COVID-19 pandemics, which particularly hardly hit Italy, and the ensuing deep recession only worsened the problems of the Italian banking system.

The largest Italian bank and one of the largest banks in Europe at all – namely, the UniCredit Group has announced lately that it expects a dizzying net loss for the 2016 year reaching about €12B. Admittedly in the next three consecutive financial years, UniCredit Group reported net profits, this does not compensate for a giant loss for 2016. Regrettably, the condition of Italian banks is so dire that there are no sweet cures for them – only the bitter ones.

Unfortunately, it is not solely Southern Europe that has to grapple with immense financial predicaments. Even Germany – the economic powerhouse of Europe and purportedly a model example of responsible financial governance – has its financial skeleton in the cupboard. Deutsche Bank's different sordid feats drew the deserved attention of German – and not only German – public opinion. Whenever one talks with Polish representatives of the banking sector or political circles about the unenviable condition of the Western European banking system sooner or later the topic of Deutsche Bank is summoned by them in the discussion.

Deutsche Bank – the symbol of the German banking industry has been struggling with plenty of various legal troubles, notorious financial scandals, investigations, and accusations brought against it by its clients and business partners. Among other things, the bank in the last eight years has been charged with:

- Tax evasion in conjunction with the trading of emissions certificates[22];
- Intentional failures to report money laundering[23];
- Obstruction of justice[24];

[21] J. Szewczak, *Świat na zakręcie,* "wSieci" 2017, No. 11 (224), 13-19.03.2017, p. 81.

[22] M. Bartsch et al., *A Reputation in Ruin: Deutsche Bank Slides into a Swamp of Scandal*, <http://www.spiegel.de/international/business/deutsche-bank-reputation-at-stake-amid-a-multitude-of-scandals-a-873544.html> (10.10.2020).

[23] *Ibidem.*

[24] *Ibidem.*

- Embellishment and whitewashing of financial statements to cover up losses together with other illegal accounting practices[25];
- Deliberate circumvention of sanctions imposed by particular states as well as the international community on the Islamic Republic of Iran, Sudan, and a few other countries[26];
- Money laundering via so-called mirror trades in favor of Russian criminal organizations (overall $10B have been laundered thanks to Deutsche Bank's complicity)[27];
- Participating in collusion to fiddle the accounts of Italy's third-largest bank, Monte dei Paschi di Siena enabling it to conceal sky-high losses over the years 2008-2012[28];
- Participation in collusion to manipulate the benchmark LIBOR interest rate[29];
- Participation in collusion to manipulate gold and silver markets – the accusation to which the Deutsche Bank confessed[30];
- Conscious selling of toxic mortgage-backed securities and misinforming its clients about their true risks[31].

The list above by no means should be treated as the full review of Deutsche Bank's unethical demeanor. All the above cases and many others tarnished the reputation of this giant of global banking worldwide and, as we all know, gaining a good reputation requires decades of hard and fair work. All these have been forfeited by the management of the leading German financial institution. In 2017 Deutsche Bank was directly

[25] M. Hesse, T. Schulz, *Whistleblower Accusations: Did Deutsche Bank Fraudulently Hide Huge Losses?,* <http://www.spiegel.de/international/business/whistleblower-accuses-deutsche-bank-of-concealing-billions-in-losses-a-871933.html> (10.10.2020).

[26] E. Caesar, *Deutsche Bank's $10-Billion Scandal,* <http://www.newyorker.com/magazine/2016/08/29/deutsche-banks-10-billion-scandal> (11.10.2020).

[27] *Ibidem.*

[28] *Deutsche Bank Charged By Italy For Market Manipulation, Creating False Accounts,* <http://www.zerohedge.com/news/2016-10-01/deutsche-bank-charged-italy-market-manipulation-creating-false-accounts> (13.10.2020).

[29] See: B. Masters, P. Jenkins, *Big banks investigated over Libor,* "Financial Times", 15.03.2011; S. Böll et al., *Behind the Scenes in the Libor Interest Rate Scandal,* <http://www.spiegel.de/international/business/the-libor-scandal-could-cost-leading-global-banks-billions-a-847453.html> (13.10.2020).

[30] *Deutsche Bank manipulował. W handlu złotem i srebrem,* <http://niezalezna.pl/79269-deutsche-bank-manipulowal-w-handlu-zlotem-i-srebrem> (14.10.2020).

[31] J. Strasburg, A. Viswanatha, *Deutsche Bank, U.S. DOJ Continue to Discuss Mortgage-Securities Settlement,* <https://www.wsj.com/articles/deutsche-bank-u-s-doj-continue-to-discuss-mortgage-securities-settlement-1475440468> (3.11.2020).

involved in about 7.800 lawsuits all over the world[32]. The prevailing majority of them were the result of plaints sued by dissatisfied customers, business partners, financial regulatory bodies, and governments.

As one of the German journalists observed: “The charges are always the same, and the word ‘fraud’ appears almost everywhere: The bank stands accused of lying, swindling, and cheating in conjunction with billions in real estate loan transactions. It is said to have cheated its customers while lining its own pockets. And it stands accused of having gambled more recklessly and exhibited less moral responsibility than many other financial institutions”[33]. In this light, nobody ought to be surprised to find out that the biggest German bank failed several European and American banking stress tests in a row in recent years and the only one it passed in July 2016 managed to pass because it was given a special, privileged treatment by the European Central Bank which – reportedly by the way of exception – agreed for some strongly controversial concessions beneficial to the Deutsche Bank[34]. To better understand the consequences of this message one must realize that the stress tests are constructed in such a way to be ‘passable’ for the possibly highest number of banks – all to boost confidence in the banking system among the public. Bear in mind that we are discussing the global systematically important bank ranked at the first position in the ranking of such banking giants by the IMF in the special report issued in 2016.

The problems of the Deutsche Bank are so huge that they appear to weigh on German politicians. For example, in 2016 German chancellor officially and publically encouraged German citizens to gather stores of staples and basic items sufficient for 10 days. It may imply that enforcement of a kind of banking vacation is seriously considered among German government circles.

Banco Monte dei Paschi di Siena (MPS) – the oldest world bank (which is very symbolic!) and the third-biggest bank of the third-largest, in terms of GDP, the economy of the eurozone has gigantic financial difficulties being in fact in the state of insolvency. Interestingly, its problems only secondarily resulted from objective and hard to predict

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[32] U. Fichtner, H. Goos, M. Hesse, *The Deutsche Bank Downfall: How a Pillar of German Banking Lost Its Way*, <http://www.spiegel.de/international/business/the-story-of-the-self-destruction-of-deutsche-bank-a-1118157.html> (15.10.2020).

[33] M. Bartsch et al., *op. cit.*

[34] *ECB Allowed Deutsche Bank To Cheat In Latest Stress Test, FT Reports*, <http://www.zerohedge.com/news/2016-10-10/ecb-allowed-deutsche-bank-cheat-latest-stress-test-ft-reports> (17.10.2020).

and to counteract external circumstances, processes, and occurrences. Primarily, its current plight has been caused by years of mismanagement as well as giant, blatant and purposeful swindles, frauds, scams, hustles, and defraudations conducted with the knowledge and approval of the infamous bank's leadership with some contribution of many Italian multimillionaires and politicians[35]. For years Italian financial authorities and central bank, including the time during which Mario Draghi presided over the Bank of Italy, turned a blind eye to these reprehensible practices. Suffice it to say, 70% of non-performing credits lent by the MPS are loans exceeding €0.5M. In other words, these loans were lent to wealthy firms and borrowers. From every three euros given in big credits by MPS, one euro disappeared irretrievably. In the light of the facts described above, no one should be amazed that Italian public opinion is outraged that MPS had been bailed out with taxpayer's money. In reality, the managers of the MPS are to blame whereas the Italians foot the bill for the sins of those managers. The bankers are fully aware of the fact that the public has lost confidence and trust in banking systems and that this process has been burgeoning over time. That is one of the main reasons why lately the concept of a cashless society is so intrusively, stridently, and persistently endorsed. Public opinion is subjected to massive propaganda campaigns aimed at convincing it that cashless payments are the real blessing for the economy. For this very reason, many far-fetched and highly dubious arguments are presented to the public as undisputed facts. That is why, every argument for getting rid of cash is vastly exaggerated, whereas any argument against this opinion is passed over in silence, neglected, belittled, or derided. In a cashless society, a negative interest rate policy could be practiced without limits because no bank depositor would have a chance to withdraw his or her savings from the bank account. In a cashless society, there will be no bank runs. Still, the people will be subject to constant robbing as well as surveillance on the part of banks, governments, and secret services. Nobody would be able to buy a newspaper or book without knowledge of some powerful institution in the loop of invigilation.

As one financial analyst and commentator accurately noticed: "Our financial system is like the Titanic: technologies such as high-frequency trading (HFT) and innovations such as securitization and complex derivatives have enabled major players to construct an enormous, fast-moving financial system that creates the illusion of low risk because the

[35] P. Kowalczuk, *Sen szalbierzy*, "Do Rzeczy", 2017, no. 5.

risks are not visible until disaster strikes. (…) All that has been accomplished since 2008-09 is there are a few more lifeboats and better communication when disaster strikes. But the risks of financial disaster have actually increased since 2008-09, as participants have bypassed regulations via shadow banking, dark pools, etc., and deepened their dependence on HFT skimming via superfast trades executed by superfast computers"[36].

After scrutinizing the subject matter I concluded that five principal things urgently need to be done to repair the Western banking system:

- The largest banks must be broken apart for smaller ones. Those who argue that if some financial enterprise is "too big to fail", it is simultaneously too big to allow it to exist are decisively right. Too frequently in the past decade, we witnessed a situation when the big banks pled, requested, entreated, and appealed for bail-outs, which were financed ultimately from the public's purse. This demeanor is nothing more than an original sort of extortion on society. The comparison of Irish and Icelandic cases proves that shoring banks up by hook or by crook is rarely economic and rewarding in the long run;
- The predominant majority – if not all – of financial derivatives should be point-blank forbidden. Derivatives in reality do not avail significantly economy and society. Instead of that, their broad implementation into the financial systems caused vast and disproportionate augmentation of risk rooted in them. To be sincere, this is probably the most serious problem of the Deutsche Bank which is supposed to amass a tremendous sum of high-risk – or even toxic – derivatives in its balance sheet as well as, reportedly, off-balance-sheet derivatives[37]. The Deutsche Bank's enormous exposure to derivatives reaches tens of trillions of euros and there are constant rumors that Deutsche Bank misstated

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[36] C. H. Smith, *Why Our Financial System Is Like the Titanic,* <http://charleshughsmith.blogspot.com/2016/03/why-our-financial-system-is-like-titanic.html> (22.10.2020).

[37] J. Rickards, *Don't Forget About Deutsche Bank,* <https://dailyreckoning.com/dont-forget-deutsche-bank/> (19.10.2020).

many of them[38]. Deutsche Bank's gross derivative exposure is assessed at about €48T[39];

- The bankers who broke the law should be finally sentenced and jailed proportionally to their crimes on a massive scale. Presently, it is not a rule to sentence the richest bankers and managers of financial institutions for imprisonment for their numerous and baleful criminal deeds – it is rather an exception to the rule. As practice hints, nobody from the highest echelons of banking and financial elites had been sentenced for criminal charges. For example, in the U.S. usually banks strike a deal with the Department of Justice and pay some sum of compensation or fine for their illegal actions. Unfortunately, such fines are most often considerably lower than the previous profits derived from unethical and unlawful activities. The impunity of the most influential bankers is rattling the public's cages. Even a singular case of spectacular arrest for the well-known financier would fire a shot across the bow among this milieu;
- In the U.S. commercial and investment banking should be categorically, once and for all separated. Many distinguished economists and financiers call for the reintroduction of the once revoked Glass-Steagall Act. The Trump administration set off this process[40];
- Huge deleveraging. Truncated balance sheets of banks would help them substantially for certain. In this respect once again the Deutsche Bank negatively stands alone among other Western

[38] M. Sully, *Deutsche Bank Said to Review Valuations of Inflation Swaps,* <https://www.bloomberg.com/news/articles/2016-10-26/deutsche-bank-said-to-review-its-valuations-of-inflation-swaps> (1.11.2020).

[39] M. W. DeCambre, *Deutsche Bank pegs its derivatives exposure at about $22 billion — and faces challenges in shedding those assets,* <https://www.marketwatch.com/story/deutsche-bank-pegs-its-derivatives-exposure-at-about-22-billion-and-faces-challenges-in-shedding-those-assets-2019-07-26> (30.10.2020).

[40] W. Zieliński, *Banki pod topór. Prowokacja nadzorcy,* <http://www.rp.pl/Banki/303149934-Banki--pod-topor-Prowokacja-nadzorcy.html#ap-1> (2.11.2020).

banks. For instance, whereas JP Morgan is leveraged 15 to 1[41], the Deutsche Bank is leveraged at the ratio of 24:1[42].

Dragging our feet with essential financial reforms neither will prevent nor will soothe the incoming financial crisis. As well, it will not calm down intensifying political strifes in the European Union or the United States. In the light of the facts mentioned above, no one should be surprised nor astonished that increasingly more people sign on with the miscellaneous ideas and concepts of more or less total remolding of how the banking system works and functions. There are some calls for even the complete resignation from the fractional reserve banking and for nationalization of the Federal Reserve. These voices in the not so far future will probably enter the mainstream. Rumblings of disgruntlement come from every direction and every side of the political spectrum – from the extreme left through the balanced centre to the extreme right. Interestingly, an increasing number of financiers, bankers, and economists are receptive to revolutionary reforms in the field of finances. Experts from various institutions are teaming up to find a realistic solution for transformation in the global financial system. Hammering out a public consensus on this matter by no means will be an easy and short process, nevertheless, it is a viable chance to make necessary reforms without too much shock. If global society manages to go through this dangerous and bumpy period in its economic and social history it will have chalked up a historic feat indeed. To do that politicians cannot budge under the pressure of miscellaneous lobbyists as so often was the case in the past.

Public opinion must constantly and persistently bring down bankers' necks. It is not prudent and wise to keep bankers at their word, because the foregoing experience teaches us that honoring a pledge is not a behavior typical of high finance. The wrath of the public against the abuse of power by the financiers is rampant and widespread. What is more, it is intensifying year by year on a global scale. Not by any means, we should interpret this phenomenon as a mindless mob having in for

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[41] B. Berkowitz, *Which of the Large U.S. Banks Is Most Leveraged?*, <https://www.fool.com/investing/2020/07/26/which-of-the-large-us-banks-is-most-leveraged.aspx> (15.11.2020).

[42] F. Garrido, R. Ahmad, *Leverage ratios at Europe's largest banks, Q4,* <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/leverage-ratios-at-europe-s-largest-banks-q4-57550337> (15.11.2020); M. Shedlock, *Systemic Risk: Deutsche Bank #1 at $100 Billion (BNP Paribas 2nd, Societe Generale 3rd)*, <https://mishtalk.com/2016/10/03/systemic-risk/> (16.11.2020).

bankers. It is rather a symptom of growing social and civic consciousness as well as a justified feeling of outrage. Big banks will go down hard, nevertheless, their collapse seems at this stage unavoidable and imminent.

Conclusion

The need to revamp and reform the global financial system is progressively pressing. Ranting tirades about the material and income inequalities as well as notorious criminal activities conducted by the high finance – though to a substantial extent justified – will not help much. In 2017 after 9 years since the Great Recession started global debts rose to a mind-boggling quota of $180T[43]. It is evaluated that at the end of 2020 the global debt will reach $277T[44]. That means that in a short period between the beginning of 2017 and the end of 2020 the global debt rose by roughly 54%. This is a truly fast pace of debt accumulation, which appears untenable in the long run. None of the serious problems plaguing the world finances has been resolved since 2008. Many of them have even deepened and worsened especially after the COVID-19 pandemic acutely hurt the global economy. Humanity is on the cusp of fundamental shifts in its economic and social systems, which are difficult to overstate. The major fear is that the trouble one 'too big to fail' the bank has created could trigger a worldwide undesirable reaction producing a global loss of confidence and waves of quickly progressing consecutive bank runs. However, other possible solutions to the huge problems of the modern world like the bailout of the biggest banks from taxpayers' money de facto lead to the economic crisis as well. Further bailouts of the largest banks would be exceptionally costly and would make for the vast increase in the level of public indebtedness, which even without the inclusion of future bailouts is enormous. As well, the solution in the form of further issuance of giant quotas of money in the long term inescapably would lead to severely boosted inflation. Unfortunately, it appears that for the central bankers the only solution to these problems is to simply crank the printing presses to emit more dollars, euros, yen, and pounds. Every imaginable scenario entails huge difficulties and a common loss of confidence in the stability, fairness, and safety of the financial systems.

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43 J. Szewczak, *op. cit.*

44 R. Campos, *Global debt to hit record $277 trillion by year end on pandemic spending splurge: IIF*, <https://www.reuters.com/article/us-global-debt-idUSKBN27Y239> (19.11.2020).

Nowadays we have found ourselves in a situation like from the ancient Greek tragedy, in which no solution is good. We have exclusively bad options to choose from.

All the signs are that the Middle Kingdom will find itself at the top of the new slowly emerging global financial system, though its position will be less privileged and powerful than that of the U.S. in the current world financial system. Without a doubt, that will be a very heavy blow for the geopolitical and geoeconomic power of America that got used to global hegemony and too often takes it for granted. Most likely, the SDR – not renminbi – will be widely introduced instead of the dollar. The new SDRs will arguably be backed by gold. It is still an open question whether the new global monetary system will be more similar to the Bretton Woods or the classical gold standard, yet we can be certain that it will not be based on fiat currencies as it is at present.

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