European Journal of Economics, Finance and Business Development
ISSN (E): 2938-3633
Volume 3, Issue 4, April - 2025

WORLD FINANCIAL SYSTEM: MAIN TENDENCIES AND INNOVATIVE DIRECTIONS OF DEVELOPMENT

Jasurbek Ataniyazov
Professor, Head of the Dept. of International Finance,
Tashkent State University of Economics, Uzbekistan,
Email: jasurbek156@gmail.com, ORCID: 0000-0002-4758-0781

Abstract

The article describes the main trends in the development of the global financial system, considers the factors influencing the stability of the global financial system and its characteristic changes, describes the mechanism for the development of the global financial system, and also provides innovative directions for the development of the global financial system. In particular, on the basis of research, relevant scientific conclusions have been formed through the study of priority areas for reforming the global financial system, issues of reforming global institutions in order to effectively influence the processes of ensuring the stable development of the global financial system in modern conditions.

Keywords: International financial system, innovation, globalization, digital money, Fintech, integration, inflation.

Introduction

Modern trends in the development of the global financial system are characterized by increased interconnectedness and integration of regional and local financial markets, their liberalization and intensification of financial relations, which leads to the formation of a single, stable global financial system [3]. At the same time, the transformational shifts in the development of the global financial system towards globalization indicate its increased instability, uncertainty in the medium and short term, increased vulnerability of national and regional financial markets, as well as an increase in the level of risk in international financial markets.

Today, one of the main factors influencing the global financial environment and changing relations in it is the process of financial globalization. Therefore, ensuring the stability of the international financial system in the context of globalization and creating the necessary conditions for the development of international trade, economic, and investment relations are urgent issues.

One of the most important and at the same time most complex areas of the world economy is the global financial system, which is developing in the context of strengthening mutual relations between different states and interstate alliances and reflects the seriousness of modern problems in the development of the national economies of individual countries and the world economy.

LITERATURE REVIEW

The issues of the development of the world financial system in the context of global instability are reflected in the scientific works of P. Krugman, M. Obstfeld, M. Melitz, M. Eskindarov, E. Zvonova, D. Goldvlatt, D. Held, R. I. Khasbulatov, S. R. Moiseev and L. N. Krasavina and others. Many studies are devoted to the prevention of global financial shocks, but the problems of the emergence and spread of crisis events that periodically occur in the international financial system, including external debt crises, remain relevant.

Scientists such as P. Krugman, M. Obstfeld, M. Melitz conducted scientific research on the main trends in the development of the international financial system and factors affecting its stability, as well as innovative directions for the development of the international financial system[10].

M. Eskindarov and E. Zvonova, S. R. Moiseev studied the features of the development of the global financial system, the main causes of the crises that have arisen, the main conditions for the development of international financial relations. They also developed recommendations for the development of financial relations between participants in the global financial system and the prevention of risks associated with the international financial market[7;11].

The research of D. Goldblatt, D. Held, R. I. Khasbulatov and L. N. Krasavina is devoted to the study of priority areas for the development of the world economy and structural reform of the international financial system based on approaches consistent with institutional changes in the international financial system[5; 12; 13].

ANALYSIS AND RESULTS

It is known that the international financial system structurally includes transnational corporations and banks, financial conglomerates, international financial and credit institutions, central banks of individual countries, institutional investors, including pension, investment funds and insurance companies, and large financial centers. Its instruments include deposits, products and services purchased from foreign countries, including international transfers for shares, loans received and issued, bills, bonds, as well as derivative financial instruments.

The mechanism of development of the global financial system is formed, first of all, under the influence of changes characterizing its activities. Among them, the following should be highlighted:

firstly, the globalization of the world economy, which allows the emergence of a new class of international investors operating simultaneously in several developing markets and capable of destabilizing the financial situation in the countries where investments are made; second, the mismatch between the high level of development of the international financial market and the corresponding institutional structure for its regulation; third, the recurrence of financial and currency crises in recent years and their intensification;

fourth, the expansion of offshore financial centers in developing countries, which reduces the effectiveness of state regulation of financial markets [4];

fifth, the limited ability of international institutions to provide financial assistance to developing countries;

sixth, the intensification of conflicts of interest arising from the implementation of financing programs of the IMF and other international institutions, which negatively affects the activities of private investors and borrowers during the financial crisis;
seventh, the increase in the number of investment institutions, financial instruments, and the volume of transactions carried out in financial markets, especially in the debt market, which complicates the cooperation of investors in overcoming crisis situations.
The current characteristics of the formation and functioning of the global financial system, the need for its transformation and adaptation to changes in the global economic environment require the search for new innovative approaches to development. This includes, first of all, an analysis of existing trends in the main components of the global financial system and directions for adapting to them.
The main conditions for innovative developments should be considered low confidence in the global financial system and the flight of capital to other countries, in particular the United States and Japan, in search of safe assets. Although these flows have significantly reduced the cost of financing public debt, serious fiscal problems remain in both countries.

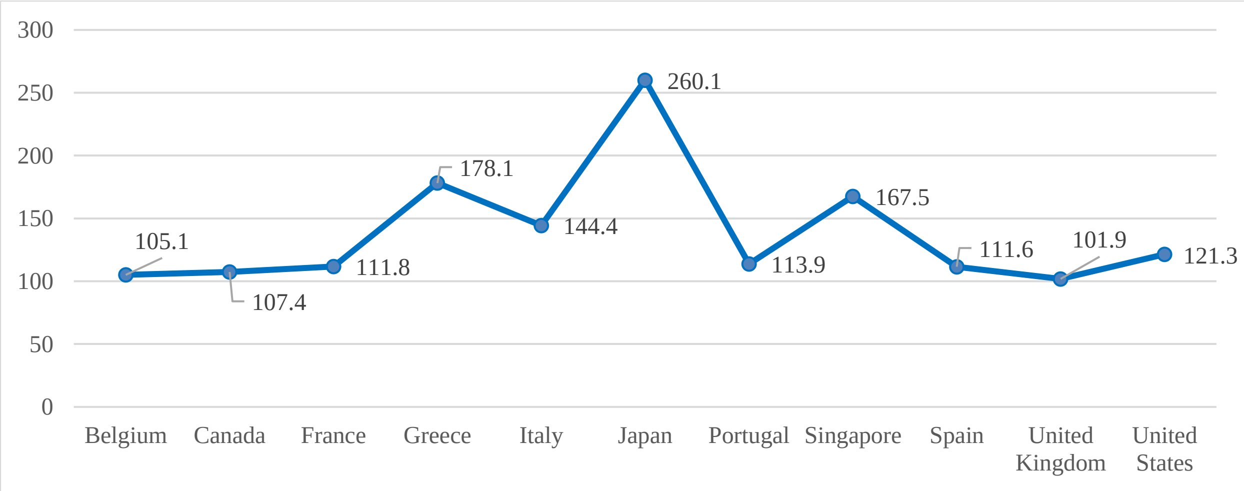

Figure 1. The share of the total public debt in relation to GDP in some foreign countries [14]

In a number of countries, such as the United States, Great Britain, Greece, France, Italy, Japan, Singapore, Portugal, Spain, Belgium, and Canada, the volume of total public debt has exceeded the volume of gross domestic product. Therefore, the main factor of concern in the medium term in many developed and developing countries is the economically unstable dynamics of debt. In recent years, the share of total public debt in GDP in countries such as France, Italy, Japan, Singapore, and Great Britain has had an upward trend. In most countries, debt is being reduced due to the implementation of effective measures to effectively manage public debt.
Emerging market economies have so far successfully weathered global shocks, but in order to overcome the decline in growth rates, it will be necessary to take precautionary measures against possible risks in the future, which may further strengthen them for domestic financial stability.

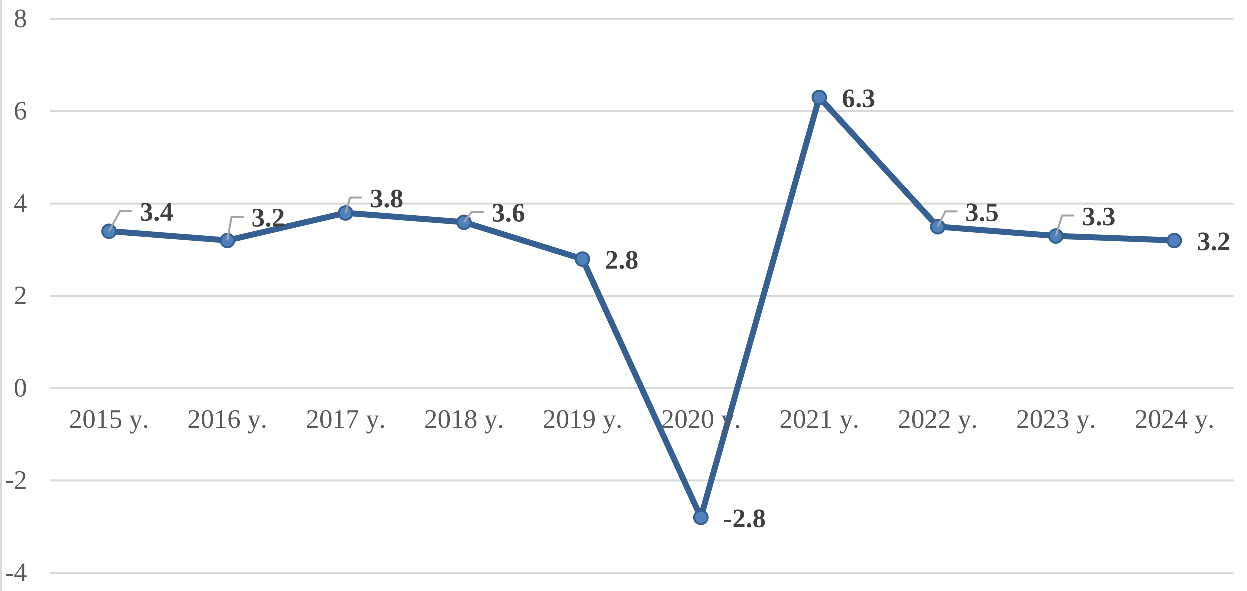

Figure 2. Dynamics of changes in the volume of world GDP (in percent)[14]

As can be seen from Figure 2, global GDP in 2020 fell by 2.8% year-on-year due to the COVID-19 pandemic, the sharpest decline since the 2009 crisis (-1.7%). In 2021, as a result of increased measures taken by countries around the world to support economic development, global GDP growth of 6.3% was achieved. In 2022-2024, global GDP growth slowed significantly compared to 2021, due to factors such as macroeconomic changes in the global economy, fluctuations in international financial markets, the expansion of financial and economic restrictions, and instability in the global market environment. The slowdown in economic growth was more pronounced in developed countries than in emerging and developing countries.

Among advanced economies, growth in the United States exceeded expectations due to robust consumption and investment, while economic activity in the euro area was lower than forecast. Most emerging market economies showed moderate stability and growth rates exceeded forecasts, with the exception of China, which was hit by negative factors related to the real estate crisis and a decline in economic confidence.

Three global factors are influencing the situation in the global economy. First, economic activity in the services sector has almost fully recovered. Strong demand for services in 2022-2023 led to positive growth rates in countries with service-dependent economies. Second, the slowdown in economic growth rates was partly due to the reduction in the impact of monetary policy, which was needed to reduce inflation. Third, the dynamics of inflation and economic activity were significantly affected by sharp changes in the prices of basic goods on world markets.

Despite the trends and some progress made over the past five years, financial systems have not come close to achieving their targets. While there have been no major deviations from financial globalization to date, countries remain vulnerable to adverse cross-border spillovers due to unexpected financial system shocks.

While ongoing reforms are ultimately expected to improve the soundness of the banking system, a number of issues require special attention, including addressing the problems of very large institutions; identifying the advantages and disadvantages of directly restricting business activity; focusing more on segments of the banking system that may pose systemic risks; and making progress in implementing recovery and rehabilitation plans for large institutions, especially those operating internationally. In addition, financial buffers consisting of high-quality capital and liquid assets typically support economic growth, so it is important to effectively manage global banking relationships to limit negative contagions during a crisis and take advantage of cross-border activities.

The following tools are considered to be the priority in solving the identified tasks. First, the intensification of international financial integration through the unification of financial services and banking operations; liberalization of customs procedures; unification of the coordination system through international financial and credit institutions, electronic payment instruments, and the transition to a global monetary system with a single world currency. In this regard, it is worth noting the abolition of legislative restrictions on the movement of capital.

The integration of the financial markets of developed countries into the global financial system has made it possible to direct an increasing volume of capital not only to its economy, but also to the economies of developing and transition countries. Here, the use of the EU experience in forming a single financial space is of decisive importance. This provides the following advantages:

a) full liberalization of payments and capital migration;

b) expanding access to the market of banking, time and other financial services of partner countries for companies and individuals of EU countries;

v) coordination of banking, tax and other legal documents on investment;

d) strengthen control over the activities of national financial and credit institutions and protect the interests of investors.

Secondly, the imperfection of the system of international economic relations based on the traditional rules and principles of the market economy in modern economic conditions. It should be noted that in 2010, as a result of the continued "currency wars" between China and the USA, the competition for sales markets intensified, with a significant increase in protectionist sentiment in the world community. All this necessitates the formation of an alternative world reserve currency to the US dollar, as well as the feasibility of creating a global system of reserve resources.

Thirdly, the need to reform global institutions that have been able to effectively influence the processes of ensuring the effective development of the financial system in modern conditions. It should be noted that these organizations have high potential, taking into account the accumulated experience, legislative framework, available human and financial resources, etc. However, such a reform should take into account the changing balance of power in the system of international relations.

Most of the existing international organizations were created after the Second World War. They were founded by states that had a high level of influence on the system of international relations at that time, and their main task was aimed at the interests of these states. According to some experts, today the activities of these organizations are not objectively aimed at eliminating new challenges and threats, and their management structure does not correspond to the new multipolar format of international relations [6].

Given the urgency of ensuring economic security in the world, the trend towards stabilizing the activities of major international institutions is becoming increasingly urgent. The task of ensuring the formation of a sufficient volume of IMF resources, taking into account the growing needs of member states, has remained relevant since the beginning of the global crisis to the present day [1; 9].

From this point of view, increasing the resources that can be obtained through expanded new loan agreements is of great importance. In addition, today, the specific instruments of the IMF financing mechanism are an important component of the directions of reforming its activities to meet the modern requirements of the constantly changing operating environment of the global financial system. Among them, it is worth highlighting the rapid financing instruments, the components of the expanded lending mechanism, the liberalization of capital flows and the management of its outflows.

In order to reform the global monetary system, the G20 decided to improve the regulation of banks and other financial institutions, to seek ways to effectively assess and forecast risks, and to strengthen economic cooperation. To this end, the Financial Stability Board was established, which, in cooperation with the IMF, provides early warning of macroeconomic and financial risks. The IMF is designated as the main institution for monitoring the economic and financial sectors of countries, regulating the balance of payments and exchange rates, servicing debt obligations, and providing assistance to those most in need. The World Bank system also requires reform. It should be emphasized that, despite the need to change some aspects of its activities, its leading components - the IDB and the IDA - fulfill their obligations to lend to regions in need of financial assistance. In addition, it was during the crisis years in the development of the global financial system that these organizations fully fulfilled their obligations to support the countries and regions most affected by the crisis.

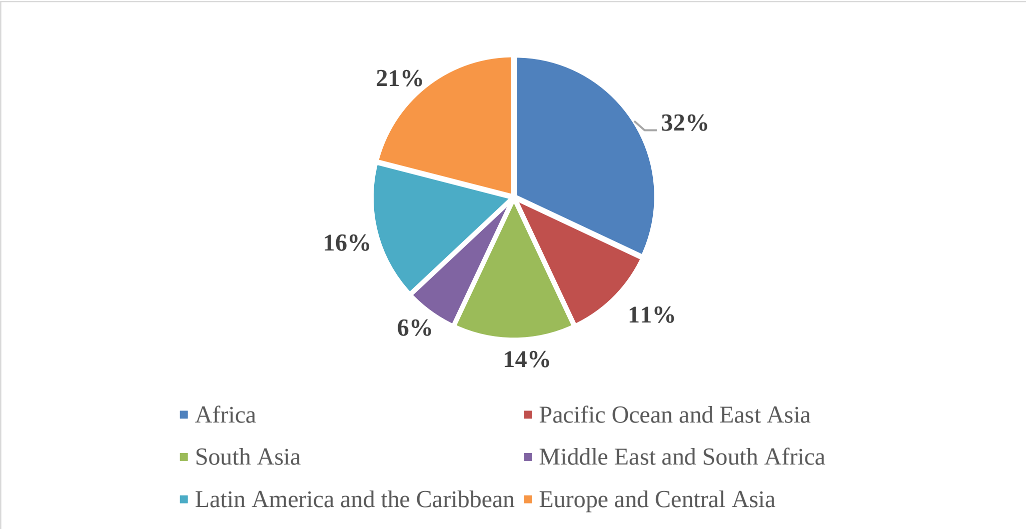

Figure 3. Volumes of lending by IMF and IDA by world region in 2024 (in percent)[1]

[1] https://www.worldbank.org

From the data in this figure, we can see that in 2024, the largest share of loans allocated by the IDB and the IDA fell on regions such as Africa (38 billion US dollars), Europe and Central Asia (24.7 billion US dollars), and Latin America and the Caribbean (19.4 billion US dollars). This is explained by the large volume of financial resources allocated to countries located in these regions to financially support their economic development programs, social sectors, and industrial sectors.

Fourth, the need to reform financial institutions. Today, the European Union shows its intentions to strengthen economic integration. In this regard, special attention was paid to issues such as the harmonization of corporate taxes of the EU member countries, the introduction of a single retirement age, the cancellation of the wage indexation mechanism, and the increase of responsibility for the failure of the EU member countries to meet the set budget indicators. An example of this is the EU institutions aimed at ensuring financial stability, in particular, the European Council for the Analysis of Systemic Risks and the European System of Financial Supervisors.

Fifth, strengthening the role of informal intergovernmental associations, in particular the G20, which have demonstrated high efficiency in overcoming the financial and economic crisis. Today, the most pressing trends in global governance are being implemented in the format of such organizations. Among them, it is worth noting the growing role and importance of developing, as well as non-state actors (non-governmental non-profit organizations, large businesses, etc.) in the system of international relations [8].

The activities of the BRICS, which is considered an informal association, are also of great importance. Its members are the Federative Republic of Brazil, the Republic of India, the People's Republic of China, the Russian Federation and the Republic of South Africa, accounting for 25% of world trade.

The biggest concern among the BRICS countries is the current global economic situation: low economic growth rates, the debt crisis in the eurozone, which is affecting the economies of the BRICS countries, which are oriented towards foreign trade. As a result of the active actions of the central banks of developed countries in the interests of stabilizing national economies, excess liquidity flows to developing countries, which increases capital flows and volatility in commodity prices. Thus, the problem that requires immediate resolution is to restore market confidence and ensure global economic growth.

Sixth, ensuring stable balanced economic growth based on the modernization of the real sector is a priority direction of state policy. This determines the tasks of using the financial system as a tool for developing the country's economy. Solving this problem expands the goals and objectives of state financial policy within the financial system.

The experience of developed countries shows that it is precisely the faster development rates of the financial system relative to the real sector of the economy that ensure the ability of the economy to achieve sustainable growth. At the same time, both excessive acceleration of the development rates of the financial system and artificial restrictions on its development create conditions for systemic risks and require control over the coordination of the development rates of the financial and real sectors of the economy[2].

Seventh, the use of a macroprudential approach by developing countries to prevent systemic risks and ensure financial stability in the long term by eliminating imbalances at the micro and macro levels. Among its main advantages, the following should be noted:
a) flexibility and adaptability of the policy, achieved by monitoring the periodic development of the financial system, monitoring risks throughout the cycle, assessing the effectiveness of regulatory measures and improving them on this basis;
b) centralize the decision-making process to ensure financial stability and control systemic risks by forming an appropriate state governing body; c) maintain a balance between risk and profitability by applying measures to minimize risks without negatively affecting the development and profitability of economic agents.

CONCLUSION

A distinctive feature of the current stage of global economic development is that countries are directing their economic policies, first of all, to solving domestic development issues. Developed countries are trying to overcome the ongoing debt crisis and budget deficits, while countries that have gained certain competitive advantages from the crisis and have become new leaders are striving to increase their power and influence both regionally and globally. This situation is changing the processes of globalization in a certain way. At the same time, the existing means for solving today's global problems, including economic ones, are insufficient, and the inefficiency of existing international institutions is becoming apparent. The main direction for solving this problem is to make changes to the economic development models of countries that are part of the world community in order to adapt them to the changing conditions of sustainable development.
In the context of the growing use of financial technologies and digital money, it is necessary to improve the regulation of the activities of banks and other financial institutions, find ways to effectively manage and forecast financial risks, and strengthen economic cooperation related to international capital migration. This, in turn, plays an important role in preventing unexpected fluctuations in the financial market conditions of countries, ensuring exchange rate stability, and achieving stability in the financial services market.
In conclusion, it can be said that now the world economy is based on the global financial system, the diversity of financial relations and the direction of financial flows, including many financial transactions. Therefore, in the conditions of globalization, a stable global financial system is necessary for the development of the economy of individual countries, the successful functioning of regional economies, and the strengthening of integration relations.

References

1. Antropov V.V. Transformation of the global monetary and financial system in the context of turbulence in world politics and economics // Economy. Taxes. Law. 2021. Vol. 14, No. 5. Pp. 6-19.
2. Vorontsova G.V., Karlov D.I. Prospects for the development of the global financial system in modern conditions // Fundamental research. - 2020. - No. 5. - Pp. 45-53.

3. Global finance: the future, challenges of growth / Ya.M. Mirkin with the participation of T.V. Zhukova, A.V. Komova, M.M. Kudinova; IMEMO RAS. - M .: Publishing house "Lingua-F", 2019. - 192 p.
4. Zagalova Z.A. The Impact of Formal Global Macroregulators on the Competitive Positions of National Economies // Finance, Money, Investments. - 2022. - No. 1. - P. 3-9.
5. Krasavina L.N. Trends and Prospects for the Reform of the World Monetary System // The Century of Globalization. - 2011. - No. 1 (7). - P. 29-43.
6. Krylova L. V. Transformation of the World Monetary and Financial System towards Polycentrism and Regionalization // Economy. Taxes. Law. 2021. Vol. 14, No. 5. P. 39-50.
7. Moiseev S.R. Policy of Maintaining Financial Stability. Economic Issues. 2008, No. 11. P. 51-61.
8. Orlov F.P. Trends in the Development of the World Monetary and Financial System // Theory and Practice of Social Development. – 2022. – No. 10 (176). – p. 91–97.
9. Lev M.Yu., Medvedeva M.B., Leshchenko Yu.G. Evolution of global governance of economic processes in the context of international organizations from the standpoint of national security // Economic Security. – 2022. – No. 4. –p. 1583–1614.
10. Paul R. Krugman, Maurice Obstfeld, Marc Melitz. International Finance: Theory and Policy, Global Edition 11th Edition. Pearson. 2018. 468 p.
11. Eskindarov M., Zvonova E. Global finance. Textbook. - M.: KnoRus, 2019 . – 424 p.
12. Held, David & McGrew, Anthony & Goldblatt, David & Perraton, Jonathan. (1999). Global Transformations: Politics, Economics, and Culture. 540 p.
13. Khasbulatov R.I. International finance: textbook for masters / R.I. Khasbulatov. - Moscow: Publishing house Yurait, 2014 .– 567 p.
14. https://www.imf.org
15. https://www.worldbank.org