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Political Economy of the Global Financial System in the 21st Century

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ABSTRACT

The world economy in the 21st century faces increased uncertainty and emerging crises. The most significant of these, known as the Great Recession, has led to significant changes in the global financial system since the post-Bretton Woods era. The author aims to trace these changes through the activities of international financial institutions, and to demonstrate the need for a political and economic approach to evaluating their activities, including the strengthening of their social orientation. The aim of the study is to explore the potential for global financial regulation, while also enhancing the humanitarian and economic focus of international financial institutions, and transforming the global financial system in response to the challenges of the 21st century's crises. The main methods used in this study were system and logical methods, induction and deduction, as well as statistical analysis. These methods helped to reveal trends in the expansion of financial models proposed by the IMF and the World Bank, as well as the main changes in the global bond market and its differences from the equity market. Data from the World Bank and IMF, as well as international statistics and fundamental research databases, were used to conduct a political and economic analysis of the activities of international financial institutions and their impact on individual countries. Particular attention was paid to the least developed countries and their social development. As a result of the study, the conclusions regarding the increase in poverty caused by financial and credit assistance from the IMF to developing countries were refuted. The study also highlighted the role of international financial institutions in supporting poor countries in achieving the UN Sustainable Development Goals. The concept of "socialization of the activities of global financial organizations" was introduced. It has been shown that the focus of financial institutions, in addition to their core functions, on humanitarian issues in the modern world largely determines the financial architecture in which the global economy operates.

Keywords: architecture of global finance; Bretton Woods system; global financial regulation; asymmetric sovereignty; global fixed income market; emerging markets; financial crisis; WB; IMF; ECB; poverty reduction; open finance

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"We are entering a new dangerous phase — a world that is becoming more fragmented, more vulnerable, and more susceptible to shocks"

Kristalina Georgieva,
Managing Director of the International Monetary Fund

INTRODUCTION

The period since the mid-2010s has been considered a decade of increased uncertainty and emerging crises [1, p. 836], which had a major impact on economics as a discipline and practice of structural transformation. In the article, the time period of the analysis is limited to the last decade. The analysis of this difficult period of changes in the policies of global financial institutions and the global financial architecture determines the relevance of the article.

The crisis also led to the creation in 2009 of such an international body as the Financial Stability Board (FSB), which monitors and makes recommendations regarding the global financial system.[1] It should be noted that this Council [2] was established on the basis of the Financial Stability Forum, whose activities since 1999, like any forum, have failed not only to provide proactive preventive measures for the stability of global finances, but also to develop some joint measures against the impending crisis, although the Forum was considered successful in discussing and cooperation in the field of supervision and supervision of financial institutions and financial events. In November 2008 at the height of the

[1] It was created on the initiative of the G20 and has been a legal entity (an association under Swiss law) since 2013.

American subprime mortgage crisis,[2] it was recognized that it was necessary to expand the Forum to include emerging economies, but this could not change the situation. Therefore, in April 2009, the FSB was created with expanded functions compared to the Forum. In the activities of global financial institutions, it is necessary to evaluate the possibilities of involving developing countries in the regulation or even in the global economic governance of the global financial architecture. The decision to do so was due to the political economic fact that, with a serious and sustained recession in European and North American economies, fast-growing economies such as China, India, and Indonesia not only suffered much less than most developing countries, but grew significantly during this period. These economies, as well as developed ones, promote gold exchange-traded funds in domestic markets, which so far occupy, for example, an insignificant place in the Indian stock market [3, p. 70]. The shifts in the ratio of developed and developing economies will be considered using the example of the bond market. Such unpredictable facts require an analysis of differences in economic regulation systems based on national models of economic growth, which are especially important for regulation in the financial and banking sector. Among the issues highlighted in connection with their particular relevance to political economy, "the interpretation of fiscal policy and public finances by economic agents, including credit rating agencies, when evaluating sovereign bonds" is noted [4, p. 126]. The author of this article shares the view that post-Keynesian economics has a lot to offer in terms of expertise in fiscal policy and public finance, including the role of international financial organizations in this, which are the subject of this article's analysis.

MODERN ARCHITECTURE OF THE INTERNATIONAL FINANCIAL SYSTEM

Before considering the current architecture of the financial system in the global economy, let's touch on its vision by domestic researchers [5]. A brief overview of Russian scientific schools on the theory of finance is given in the work of G. S. Panova and I. V. Larionova, where it is noted that even in the definition of finance "there is currently no unity" [6, p. 112]. It is also difficult to identify the approaches of Russian scientific schools to the political and economic study of the international financial system, although the scientific school of L.N. Krasavina explores the transformation of world currencies. The main contribution to the theory of the international financial system by R.E. Lucas Jr. is generally recognized. An overview of his main works is given in the article [7].

The definition of the global financial system is given in [6], where the authors present it as a set of national financial systems, as well as international financial institutions in their interaction" [6, p. 111]. It seems that the absence of the global financial architecture in this definition, changes in which indicate the direction of development of this system after the crisis of 2008–2009, is an omission by the authors. This architecture is the main subject of modern discussions, in which the so-called "national interests" prevail in addition to block, "geographical" and a number of others. Moreover, the authors criticize the position of other researchers, believing that "monetary and credit institutions, banks, are also included in the institutions of the financial system, which is essentially erroneous" [6, p. 112]. This extreme approach of the authors, apparently, stems from two positions taken by them: the interpretation of finance in a narrow sense [6, p. 108] and the approach to banks only as credit institutions [6, p. 112].

The concept of "Political economy of the international financial system" can be represented as aggregate of views on an integrated/systematic approach to the analysis of this system in all its diversity, including four main directions of its changes/development:

- economic;
- political;
- social;
- environmental.

[2] The crisis of the US investment banks culminated in the collapse of many of them in September 2008.

Previously, the place of this system in the global economy was determined mainly through its role in the economic development of society, taking into account national political interests and linking their conflicting aspirations, but at the turn of the century, international financial organizations are playing an increasingly important, and for some groups of countries — a decisive role in the transition to a green economy and strengthening national social policy. In the latter direction, and this must be emphasized, the role of international financial institutions in achieving the UN Sustainable Development Goals is simply irreplaceable. The combination of these four characteristics of the global financial system, which has replaced the international one,[3] suggests the emergence of reliable financial institutions, the need for which was postulated by the founders of institutionalism a hundred years ago.

In relation to the in-country analysis, the political and economic approach can be much narrower and consider only two aspects of interaction. For example, the work "The Political Economy of Fiscal Adjustments" provides an assessment of the impact of the state's fiscal policy on the attitude of the population towards reform parties and their opponents [8].

The juxtaposition of political economy and institutionalism is unjustified because of the different approaches. Political economy considers economics as the basis for science, culture and politics, whereas institutionalism sees these concepts as equal and interrelated. However, the interconnectedness of concepts and categories does not mean that they are equal, because the links of subordination and subordination in various institutions exist objectively and cannot be abolished. This fully applies to the global/international financial system, in which subordination of various institutional areas can be considered a prerequisite for its effective functioning. Let's consider the role of the architecture of this system.

[3] International Monetary Fund. 2025. World Economic Outlook: A Critical Juncture amid Policy Shifts. Washington, DC: IMF, April 2025, p. 6.

It is believed that Bretton Woods (1944) provided a unified vision of the architecture of the international monetary system. And although the Bretton Woods era, the main architect of which was the greatest economist of the 20th century, J.M. Keynes [9], ended as a result of the unilateral cancellation by the government of R. Nixon of the direct international convertibility of the US dollar into gold (the "Nixon shock" of 1971); the dollar remained the de facto basis of the world monetary system. Currently, European currencies[4] and the Japanese yen (the third reserve currency) also occupy a prominent place in the foreign exchange markets, and after the formation of the euro, it also became a reserve currency and a means of transactions.

In the 21st century, attempts continue to redesign the global financial architecture by creating a new Bretton Woods [10]. The UN also proposes a "new Bretton Woods" for serious reform of the international financial architecture. By this, the UN documents primarily mean the increasing role of developing countries, increasing their participation in the management of international financial institutions, but also changes that should lead to a new financial architecture that meets the interests of these countries. For example, the International Monetary Fund (IMF) is striving for this, which, according to Kristalina Georgieva,[5] should be more inclusive and representative.

In 2009, China, represented by the Governor of the People's Bank of China, insisting on the reform of the international monetary system, spoke in favor of J.M. Keynes' idea of a centrally managed global reserve currency. In this regard, at the London summit in 2009, the G20 decided to create special drawing rights[6] by the International Monetary Fund (IMF) in the amount of $250 billion, which are distributed

[4] In addition to the euro, 6 other European currencies are classified as clearing/settlement currencies.

[5] Remarks by IMF Managing Director Kristalina Georgieva at the G20 Leaders' Summit in Rio de Janeiro, Brazil. URL: https://www.imf.org/en/News/Articles/2024/11/18/managing-director-remarks-at-g20-leaders-summit-rio-de-janeiro (accessed on 29.04.2025).

[6] As an accounting unit of the IMF.

among all IMF members in accordance with the voting rights of each country.

Celebrating the 80th anniversary of the Bretton Woods Institutions, a Conference on the Global Economy and Financial Stability was held[7] (Seoul, 3.09.2024), which focused on the economic prospects of the global economy in the context of fragmentation. One of the most interesting and difficult questions discussed at the conference was: "How will increased trade restrictions affect capital flows to emerging economies?"[8]

The scientific research institutions of six countries — the world's largest economies — have also called for the holding of the "new" Bretton Woods Conference under the auspices of the United Nations. In their opinion, the Conference should significantly reform the international monetary and financial system to reflect the changing global realities and challenges.[9] At the same time, the legitimacy of the financial institutions created by Bretton Woods is associated only with the shares and votes of these institutions, bringing them in line with the realities of the 21st century requires a revision of the quota formula (in the IMF). The task of rebalancing the governance structure of global financial institutions is associated with the need for greater inclusivity, which primarily means increased representation in management decisions and bodies of the countries of the Global South. At the end of 2024, the IMF took such a step by introducing a new position of third chairman for sub-Saharan Africa in order to give more voice to this region.

Bretton Woods established the framework of a new international economic order, but the financial institutions it created continue to function,[10] solving diverse problems and challenges that arise in the new conditions of the global world and, most importantly, in the new economy. Therefore, it is difficult to agree with the thesis of the collapse [11], if without one of its most important creations, the world financial and economic organizations, the modern global economy cannot exist and successfully solve not only financial and investment, but also social problems,[11] thereby confirming the importance of a political and economic approach on the part of international financial organizations. The orientation of financial organizations, in addition to their main functions, to the humanitarian problems of the modern world, which largely determine the financial architecture in which the global economy develops, at least partially answers the questions of economists who have stated that global financial organizations pay little attention to the social problems of our time, including environmental stress and social *dislocation*.[12] The past quarter of a century has dramatically changed the position of these global organizations in the global development of the economy and society of the 21st century.

As the IMF notes in its new report, "multidirectional and rapidly changing policy courses or deterioration in *sentiment* could lead to an even greater tightening of global financial conditions".[13] The attention of the world organization to the sentiments is particularly valuable expectations of the population/consumers, since the psychological phenomenon is, according to J. M. Keynes' theory of interest, an independent factor influencing the change in a number of trends. It is this position that is not taken into account in 2025. The American government, however, emphasizes the importance of

[7] Global Economic and Financial Stability Conference. Seoul. 3.09.2024.

[8] URL: https://2024gefs.or.kr/sub01/overview.html (accessed on 29.04.2025).

[9] Bretton Woods Revisited: Creating a Monetary and Economic Order Fit for the 21st Century. URL: https://www.bu.edu/gdp/2024/06/12/bretton-woods-revisited-creating-a-monetary-and-economic-order-fit-for-the-21st-century (accessed on 29.04.2025).

[10] According to the IMF, the tariff measures of the new Trump government pose serious risks to the global economy.

[11] This refers to the orientation of the World Bank (WB) to eliminate global poverty, the IBRD to combat poverty, etc. The fight against poverty with the help of the WB Group as a source was defined in 1974 (see: The World Bank. The New Russian Encyclopedia: In 12 volumes. Vol. IV (1). 2007. p. 276.

[12] Wilks A., Ruyter Th. World Bank and IMF: Dilemmas and Opportunities. URL: https://www.brettonwoodsproject.org/1999/06/art-16153/ (accessed on 29.04.2025).

[13] International Monetary Fund. 2025. World Economic Outlook: A Critical Juncture amid Policy Shifts. Washington, DC: IMF, April 2025, p. xvi.

public opinion to be taken into account in its policies. The development of Keynes' ideas led non-economic humanitarians to the idea that morality is socially and economically functional, deeply rooted in an evolutionary perspective [12].

GLOBAL FINANCIAL REGULATION

The IMF, the Bank for International Settlements, the Office of the UN Secretary-General for Financial Recovery and the World Bank have formed a global CGAP[14] partnership, which clearly demonstrates a humanitarian and economic orientation, as cooperation is aimed at improving the lives of people living in extreme poverty through financial integration. This partnership, which brings together not only banks, but also more than 30 leading development organizations, develops guidelines called "Key Considerations for Open Finance"[15] for countries to develop an open financing system that covers the underserved populations and improves their situation. The creation of these systems to enhance the accessibility and effectiveness of financial services involves identifying market barriers that open finance aims to eliminate. Based on their needs, each individual country implements an open finance structure based on the chosen open financial model, the so-called "frameworks". It should be noted that, describing the management of this process as a whole at the national level, the report *"Key Considerations for Open Finance"* emphasizes the need to understand the key role of government agencies[16] that play a crucial role in the development and implementation of open finance, and the resulting relevance of cooperation.[17] The emergence of this new financial institution within the framework of global financial regulation also contributes to the formation of a developed financial infrastructure, which not only increases the efficiency of the process of allocating its investments by this community, but can actually increase the size of these investments.

Global financial regulation, which emerged as a new important institution of the global economy after the crisis of 2008–2009, (The Great Recession), which began with the financial crisis, was initiated by international financial organizations and approved by the major economies of the world. Therefore, it is difficult to agree with the position of L.S. Khudyakova, who, when defining global financial regulation, puts the constant interaction of only states in the first place [13, p. 93], although the main distinguishing feature of this new, important and effective mechanism is the measures developed by international organizations and approved by leading economies and informal groups such as the G7 and G20. Even in the case when the resolution of the financial crisis (for example, the sovereign debt crisis of European markets in 2009) took place not under the leadership of global organizations (the IMF played only a supporting role), but under the management of such European institutions as the European Union (EU) and the European Central Bank (ECB), which are international organizations with any interpretation of them, which directly carried out the crisis management.

A more significant role of international institutions in regulating the economy as a whole in modern conditions is noted by the authors who study financial institutions [14, p. 108]. The emergence and improvement of this regulatory institution, global financial supervision— simultaneously leads to a rapid change in the functions of international/global financial institutions, which is assessed by V.N. Zuev and E. Ya. Ostrovskaya as *significant* [14, p. 107]. The development of unified regulatory standards was also carried out by international organizations, taking into account the opinions and with the assistance of States, primarily from the G7 and G20 groups.

At the same time, it is believed that the voluntary nature of the application of global financial regulation standards, which allows

[14] Consultative Group to Assist the Poor.

[15] Key Considerations for Open Finance. Washington: CGAP/World Bank, 2024

[16] Key Considerations for Open Finance. Washington: CGAP/World Bank, 2024. P. 1.

[17] Both between government agencies themselves and between the private and public sectors.

for adjustments in the national practice of implementing the developed standards, "is one of the important reasons for the low level of effectiveness of global financial reform" [13, p. 94]. On the one hand, we can refer to the opinion of reputable leaders of global organizations, and on the other, we can emphasize the leading role of volunteerism in different interests and, most importantly, different levels of development of financial systems in the G20 countries.

Unsuccessful attempts of government intervention in such an area as the protection of national currencies also contributed to a more adequate awareness of the important role of international financial organizations. In the available examples, the amount of such intervention proved to be prohibitively large for the State, and it did not lead to the desired results. Thus, efforts to protect the franc in the summer of 1993 cost the Bank of France 300 billion francs, or $ 50.6 billion, but this protection of the franc proved unsuccessful. The measures of the Danish government, which spent $7.4 billion, are similar [15, p. 508] to protect the national currency (50 billion Danish crowns),[18] as a result of which reserves were so severely depleted that the state was forced to resort to the largest bond placement on the market in history.

A more ambitious example in all respects is the actions of the EU and the ECB. As of June 18, 2012, the ECB spent a total of 212.1 billion Euros (equivalent to 2.2% of eurozone GDP) on the purchase of bonds covering direct debt under the Securities Markets Program [16, p. 489].

The measures of the IMF, the ECB and a number of other institutions to help Greece overcome the Great Recession are discussed in the article [16], in which the authors interpret the bailout as the result of political and economic equilibrium [16, pp. 292–293], and on the other hand, they present political and economic arguments in favor of "why collective political decision-making in the Eurozone, it can lead to suboptimal results" [17, pp. 308–309].

The Russian privatization program in a young banking system is also considered an example of a clear failure: it is considered an illustration of problems in the developing capital market, which showed that the Russian voucher as a mechanism for privatization revealed a high vulnerability of the system to covert operations [18, pp. 68–69]. At the same time, regulators could not control 1,600 Russian banks in the banking system, which undermined the security of the banking system. Although, at the same time banks have shown much greater efficiency in improving overall economic activity than individual entrepreneurs [19, p. 75]. During the same period, the national banking systems of the newly formed CIS countries were also developing. The security of the banking and investment systems in the Commonwealth of Independent States plays a very important role in the sustainable development of both the new states and the Commonwealth as a whole [20].

In the context of a contradictory reality in the field of *financial security*, the term "asymmetric sovereignty" has emerged [21], reflecting the ratio of national and supranational responsibilities: in an acute or even critical state, the main responsibility lies with national regulatory institutions, and multinational banks, which are essentially global operators on a global scale, are not subject to the regulation of national institutions. The question arises, which is quite pragmatic, but requires a theoretical political and economic understanding: is the existence of such asymmetry natural or not? This issue has both an interesting theoretical and an important practical aspect in the case of the Eurasian Economic Union (EAEU), where financial regulation issues are resolved in accordance with the Agreement only in the form of information exchange. If not for supranational regulation, then at least the introduction by the EEC as the only supranational body to monitor the financial markets of the EAEU countries as the most important sector of their economies would be useful for the future of the integration union itself.

The political and economic meaning is contained in the differences between financial

[18] In the 21st century. The National Bank maintains a fixed exchange rate of the Danish krone to the euro.

regulation and financial supervision. The article [14, p. 109] argues that it is premature to call global institutions of global financial regulation [13, p. 92], and suggests considering them institutions of financial supervision. While showing the subtlety of the approach in interpreting the differences between regulation and management, the authors at the same time allow for a strange interpretation of the concept of "international institutions", arguing that only conditionally they can be called international [14, p. 109]. It is difficult to agree with this, since international organizations as institutional units can be formed as a result of agreements of a regional rather than global nature, including the example of the ECB, formed by eleven countries and currently operating in the interests of twenty countries and the EU as a whole. Thus, A.M. Kacowic writes about these organizations as international organizations at the *regional* level [22]. The example of the ECB is also interesting from the point of view of the overall purpose of this article, which is to analyze the transformation of the global financial system under the influence of the crises of the 21st century. The ECB underwent a profound internal transformation aimed at anticipating similar collisions in the future when faced with the global financial crisis and simultaneously with the Eurozone debt crisis as a consequence of the global crisis.

A special place among international organizations is occupied by such financial institutions as the Organization for Economic Cooperation and Development (OECD). Important documents in her work include the OECD Declaration on International Investment and Multinational Enterprises (1976) and the Declaration on Cooperation with Russia.

If the OECD countries were able to agree on the harmonization of prudential/proactive supervision of banking activities back in 1991, then "Russia does not have such tools for "soft" enforcement of compliance with international standards", as A.D. Levashenko and co-authors wrote in 2018" [23, p. 76]. In addition, the OECD, along with other international financial and banking organizations, occupies an important place in the policy of achieving the Sustainable Development Goals (SDGs), which impose great obligations not only on national governments, but also on banking structures, including the World Bank Group. The OECD assessed the implementation of the full UN SDG program as a total annual requirement of $ 2,000 billion[19] for the implementation of the 2030 Agenda and the achievement of all set goals by 2030, which is 4 times higher than the UN estimate itself. This assessment is also very important in connection with the consequences of the pandemic for different groups of countries.

THE GLOBAL BOND MARKET IN THE LAST DECADE

Let's turn to such a phenomenon of the global financial market as the bond market. On the one hand, it is an established, stable market, dominated for several decades by the same banks, which are essentially holdings/conglomerates. So, in the top ten of the list of investment banks are American banks (the entire top five and the tenth position), English, German and Swiss banks. On the other hand, according to international experts (Statista), by the end of 2024 Several Chinese banks may enter the ranking of the world's leading investment banks for bond-related fees. So far, even the top twenty leading banks in the world include only banks from highly developed countries.[20] Considering the role of Chinese banks, it is necessary to take into account that all large Chinese banks are characterized by significant government involvement, while the state dominates the largest banks in the country. So, if the state's share in relatively small banks (less than 10 billion US dollars) is less than 30%, then in the top four banks (400 billion US dollars) the share of the state is less than 30% and higher), it ranges from 60–70%, even exceeding 70% in the largest of

[19] WHITE PAPER #1. One Planet Lab. Summit for a New Global Financing Pact, Paris, 22–23 June 2023. URL: https://pactedeparis.org/img/OPL1.pdf. (accessed on 29.04.2025).

[20] We would like to mention the G7 banks, but the Macquarie Group from Australia takes the place of Italy, which is not present, in the "financial seven".

them — Industrial and Commercial Bank of China. Therefore, such a component of the four mentioned in the political-economic approach, as a political one, plays a role even in the global capital market.

Bonds are one of the most important assets in the global capital market and indicators of the banking system. Let's use the data on the global market of outstanding fixed income bonds, which is monitored by SIFMA (Securities Industry and Financial Markets Association),[21] to analyze the changes in the situation of countries over the past decade. Analyzing the data for the period 2013–2023 for the indicator "Global outstanding fixed income bonds" (*Fig. 1* and *2*), the following conclusions can be drawn. First of all, we note the strengthening of the US position, despite many gloomy forecasts: the share of this economy in the global bond market increased by 0.9 percentage points and reached 39.3% of the total global volume. Although the EU's share has decreased significantly, by almost 1.5 times, this association remains the second bondholder, despite a noticeable increase in China's share. The share of the latter increased 2.8 times over the entire period, although it decreased by 0.4 percentage points in 2023 compared to 2022. It is also worth noting some changes in the position of the two largest Western economies in 2023, compared to 2022, the last year of the pandemic: while the US share decreased by 0.7 percentage points, the EU share increased by 1.1 percentage points.

The Japanese bond market is also attracting attention, which, despite a 1.7-fold decrease in its share, continues to be a major player in this market, ranking fourth. The *emerging markets* group has increased its share by 3.1 times, but without China it has only 5.0% (EM), which, of course, is too small compared to the GDP (adjusted for PPP) of developing economies such as India, Indonesia, Brazil, which are among the top ten countries the world.[22] The paper [19] also noted a change in the share structure of the fixed income bond market in favor of developing economies. There was a 1.56-fold drop in the EU's share from 2008 to 2023, a 2.12-fold drop in Japan, a 1.5-fold drop in the UK, and an increase in the share of China (5.4-fold) and other countries[23] (2.3-fold). At the same time, although the share of the United States remained (39%), it fell by 2 percentage points compared to the peak reached in 2015 [24, p. 321].

The multidirectional dynamics of the indicator in the major financial centers can also be considered important changes in the market under consideration. While the share of the United Kingdom and Australia has decreased over the past 11 years, the share of Canada, Switzerland, Singapore and a group of other developed countries (DM) has increased (*Fig. 1* and *2*).

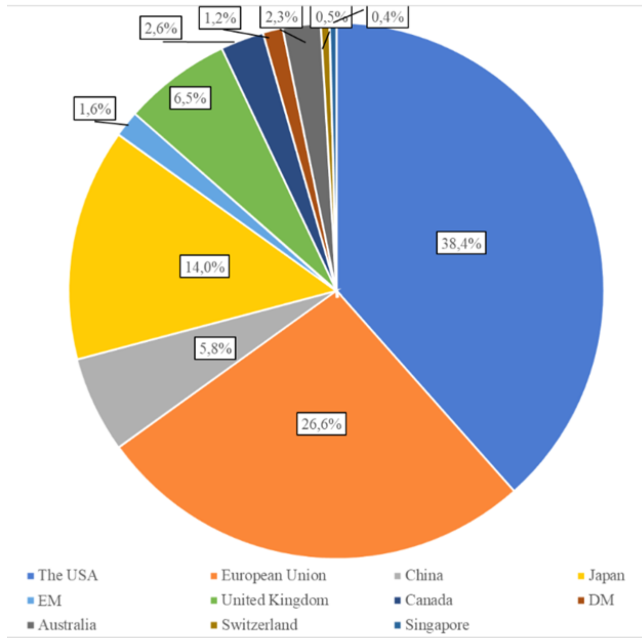

Fig. 1. **Global Fixed Income Markets Outstanding: Share of Countries in Percentage in 2013 (the total amount is 85.2 trillion US dollars)**

Source: Compiled and calculated by the author based on: 2013 Capital Markets Fact Book. Statistics. SIFMA; 2013:6.

[21] 2024 Capital Markets Fact Book. SIFMA Research. Statistics. July 2024. URL: http://www.sifma.org/legal (accessed on 29.04.2025).

[22] The share of the top 10 emerging markets in GDP, excluding China, is 4 times higher than the share of all EM countries in the bond market. Calculated from: URL: https://databank.worldbank.org/reports.aspx?source=2&%20;%20series=NY.GDP.MKTP.PP.CD&%20country%20=%20 # (accessed on 29.04.2025).

[23] The Others group includes both developed (Australia, Canada, Singapore, etc.) and emerging markets.

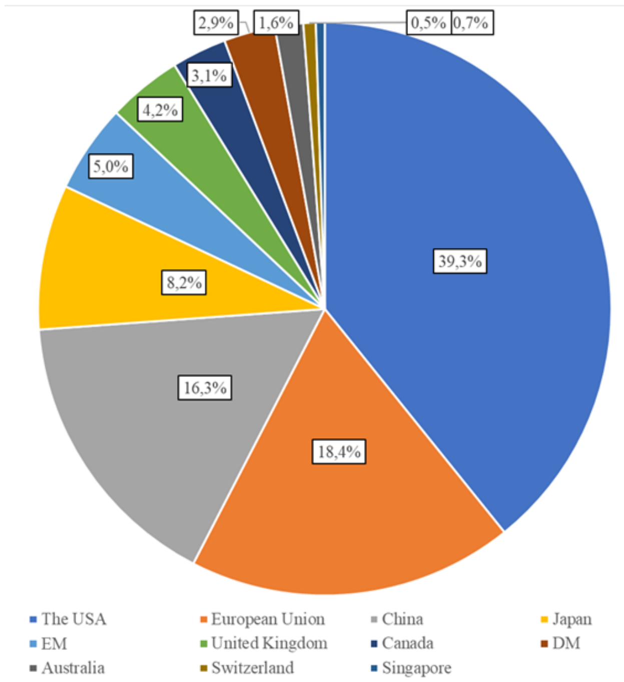

Fig. 2. **Global Fixed Income Markets Outstanding: Share of Countries in Percentage in 2023 (the total amount is 140.7 trillion US dollars)**

Source: Compiled and calculated by the author based on: 2024 Capital Markets Fact Book. Statistics. SIFMA; 2024:9.

Note: DM — developed markets; EM — emerging markets; DM and EM — excluding the countries listed in the chart; WB — United Kingdom.

The American economy continues to dominate the global bond market, despite the growth of China's performance. The small but increased share of developing countries shows important trends that distinguish their position in the bond market from the global equity market.

Significant changes in the ranking of countries by share in the global volume of global stock market capitalization indicate a decrease in the role of China and rapidly developing economies [25, p. 42]. China's share in this indicator increased by only 1.58 times compared with a 2.8-fold increase in the share of bonds, while China's share in the capital market in 2023 was only 9.5%, which is significantly lower than the total share of other developing economies (13.3%) [25, pp. 32, 34]. But at the same time, the share of EM in 2013–2023 did not increase, but decreased, unlike the bond market. This contradictory dynamics indicates the instability of the development of even fast-growing economies and the illegality of conclusions about the success of their development based solely on high GDP growth rates.

It can also be noted that the countries of the "developing" world have suffered more from the pandemic in almost all areas of social development, including economic, and are recovering more slowly. These countries, especially the least developed ones, are distinguished not only by high public debt and special privileges in relations with international banks, but also by weak social policies and social protection of the population. This is also why the UN SDGs focus on them, and achieving these goals, as noted above, also imposes great obligations on international financial institutions, primarily the World Bank and the IMF.

THE SOCIAL MISSION OF FINANCIAL INSTITUTIONS

In 1999, the International Monetary Fund (IMF) announced a new approach to poverty reduction, introducing a new mechanism in the form of the Poverty Reduction and Growth Facility (PRGF) for low-income countries, aimed at making poverty reduction efforts "a key and more explicit element of the updated growth-oriented economic strategy".[24] From a political and economic point of view, this step can be assessed as a strategic turn in the activities of global financial organizations. In 2010 The IMF has announced a new stage in the fight against poverty by creating a Trust Fund to Reduce Poverty and Promote Economic Growth (Poverty Reduction and Growth Trust, PRGT). The beginning of the "socialization" of the activities of global financial organizations within the framework of the new approach was associated with a specific condition for the inclusion of countries with low per capita income in programs — the requirement to develop and implement poverty reduction strategies in these countries in order to obtain

[24] The Poverty Reduction and Growth Facility (PRGF)—Operational Issues. Introduction. URL: https://www.imf.org/external/np/pdr/prsp/poverty2.htm (accessed on 29.04.2025).

loans financed by the World Bank and the IMF. These strategies were supposed to facilitate better coordination of aid to developing countries from different sources. From a set of standard strategies developed by financial institutions, countries choose a strategy themselves and, making it national, determine priorities, specific measures and programs to achieve goals. The national governments participating in this initiative are preparing so-called "Poverty Reduction Framework Strategies, which are updated every three years" [26, p. 105]. It is also worth emphasizing that loans provided under PRGT currently have a zero interest rate, i.e. they are interest-free loans.

Despite all the efforts of the IMF, its criticism, like that of other global economic institutions, continues. Considering the task of ensuring economic stability around the world, assigned by the International Monetary Fund community, experts turn to the same problem of distributing voting rights in proportion to the amount of financial contributions made by the Fund's member States. For example, in [27], attention is drawn to critical voices who consider this fact "as fundamentally contrary to the organization's goal of changing global politics and economic reform" [27, p. 96]. But the issue of the decision–making mechanism by the "balanced" or simple votes of the organization's members — 191 countries — is a complex political and economic issue where the geopolitical and geo-economic interests of countries or groups of countries that are not related to the so-called "democratic accountability" collide.

The IMF's criticism casts doubt even on the Fund's steps to reduce poverty as one of its goals and support low-income countries.[25] Thus, in [28] it is argued that the borrowing countries of the IMF experience a higher level of poverty. The authors examined the impact of IMF lending conditions on poverty based on a sample of 81 developing countries over a thirty-year period from 1986 to 2016. According to their calculations, the IMF loan agreements containing *structural reforms* contribute to the fact that more people are trapped in a cycle of poverty. The authors attribute this phenomenon to the fact that "reforms include deep and comprehensive changes that, as a rule, lead to an increase in unemployment, a decrease in government revenues, an increase in the cost of basic services, and a restructuring of tax collection programs, pensions, and social security" [28, p. 806]. In contrast to structural reforms, credit agreements that promote *stabilization reforms* have less negative impact on poverty. In the article, this is attributed to the greater freedom of action of the borrower state in relation to national macroeconomic goals. The authors explicitly state that their "conclusions are *reliable* for various specifications[26] and show how IMF loan agreements affect poverty in developing countries" [28, p. 806]. It is difficult to agree with this for the following reason.

Although the article examines the impact of the IMF over a fairly long period of 30 years, which in another case could certainly be considered the fundamental basis of the study, the authors did not take into account the changes in the policies of the IMF and other international financial institutions in relation to the phenomenon of poverty during this period. The problem is that, firstly, the IMF, like the World Bank, began its approach to poverty only after 1999, so it is incorrect to compare other loan terms before 1999. In addition, a new phase of this policy and related credit conditions for countries was launched only in 2011 (the decision to create the PRGT was made in October 2010), therefore, it is unlikely that loans for 2011–2016 under these strategies were significantly included in the data of the model constructed by the authors. Secondly, the authors take a sample with a group of developing countries as a whole (81 countries) and do not take into account the basic principle of the

[25] During the pandemic years, the IMF provided 57 such countries with about 35 billion US dollars in interest-free loans using PRGT.

[26] Note that the use of academic econometrics can be useful to identify the relationship between multidimensional phenomena, but it cannot serve as a measure of reliability in itself.

IMF — the most favorable credit conditions are concentrated on the poorest low-income countries (low income countries according to the World Bank graduation rate). It can be agreed that even such studies and their conclusions can be beneficial for policy changes in financial and banking structures. But it seems rash to consider the conclusions of a study with such inconsistencies to be reliable. The example of another earlier publication shows that it is important to take into account not one, but different income indicators. Thus, in [29], income data reflecting market inequality before taxes and financial transfers, market inequality, and purified income data, net inequality were used.

International organizations such as the IMF, the Bank for International Settlements, and the Financial Stability Board (FSB) seek to overcome barriers by generating new transnational knowledge through recording and orchestration processes [30]. Back in 2014, the IMF, in its report "Fiscal Policy and Income Inequality", noting the growing inequality in both developed and developing countries, put forward two main messages about the interdependence of inequality and economic development. First, high income inequality can be detrimental to achieving macroeconomic stability and growth, and therefore, in its policy recommendations (or rather, political and economic ones), the IMF "should take into account how macroeconomic policy (including fiscal policy) affects income distribution and its compliance with the distributive goals of the country's authorities".[27] Secondly, fiscal policy[28] is the main tool of governments to influence the distribution (redistribution) of income.

[27] Fiscal Policy and Income Inequality. IMF Policy Paper. Staff Report. Washington, D.C.: International Monetary Fund, 2014, p. 4. URL: https://www.imf.org/external/np/pp/eng/2014/012314.pdf (accessed on 29.04.2025).

[28] According to the Fund, this policy has three main objectives: to maintain macroeconomic stability, provide public goods, and correct market failures.

CONCLUSIONS

It seems that experts are right when they believe that the increasing fragmentation of national financial regulations does not negate the need for international cooperation to maintain the stability of the global financial system and address new risks associated with financial innovation [31]. International financial institutions play a special and irreplaceable role in this cooperation, as they focus their efforts on assisting and supporting the development of least developed and poor countries, while also relying on the support of developed countries for their own success. A balance must be struck between these two aspects of their operations, as a skewed emphasis on one or the other could harm the global community.

Using the examples of the IMF and World Bank, we can conclude that they are increasingly adopting a political and economic approach to their activities. They combine the conditions for providing loans to least developed countries with a requirement for an active national policy to fight poverty. In addition, without the involvement of international banking institutions in policies and measures to eradicate extreme poverty, it is unlikely that the UN's Sustainable Development Goals will be achieved, even beyond the deadlines set by the UN.

The presented political and economic approach to the study of the international financial system will, on the one hand, enhance the understanding of the importance of environmental and social activities of both international and national financial institutions. This will be achieved by strengthening the awareness of Russian financial structures. On the other hand, this approach will allow for the updating of educational courses in the field of global finance and international economic relations. This includes the motivation for the creation of new courses and programs, which will contribute to a better understanding of the complexities of the global financial landscape.

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