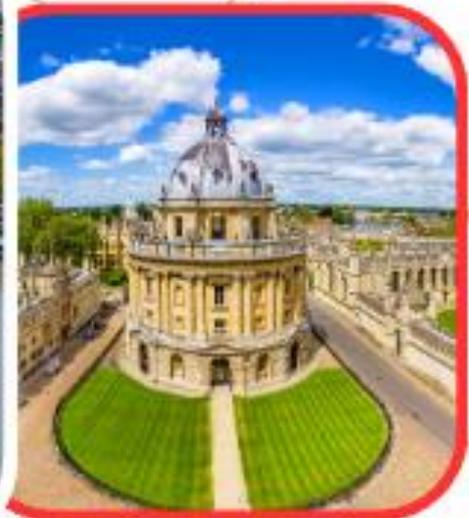




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## THE IMPORTANCE OF ESTABLISHING GLOBAL FINANCIAL ECONOMIYS

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**Annotation:** This article explores the growing significance of developing an interconnected global financial system in the digital age. It examines how advanced technologies such as blockchain, artificial intelligence (AI), and central bank digital currencies (CBDCs) are transforming international finance by promoting transparency, efficiency, and accessibility. The study identifies key challenges—including global financial instability, inequality between nations, and exchange rate volatility—that threaten the stability and fairness of global integration. It further analyzes how recent global developments, such as the 2025 expansion of digital currency networks and AI-driven financial tools, influence these dynamics. To address these issues, the paper emphasizes coordinated international action through debt relief, early-warning systems, and digital financial inclusion.

**Key words:** Global financial system, digital economy, CBDC, blockchain, AI, sustainable finance, inequality.

**Introduction.** In 2025, the global financial landscape continues to evolve rapidly under the influence of advanced digital technologies. According to the Bank for International Settlements (BIS), more than 70% of central banks worldwide are actively exploring or piloting Central Bank Digital Currencies (CBDCs) to enhance cross-border payment efficiency and financial inclusion. For example, India recently launched a retail CBDC sandbox in October 2025 to test digital rupee transactions with fintech companies, while Saudi Arabia joined the BIS-led mBridge project, which connects multiple central banks to experiment with instant international settlements using digital currencies. The integration of blockchain, AI, and digital payment infrastructures has made global finance more accessible and transparent. However, new challenges, such as global inflation, climate-related risks, and uneven digital access require collective solutions. International institutions like the IMF, World Bank, and BRICS New Development Bank now focus on sustainable finance and inclusive growth. The increasing adoption of central bank digital currencies (CBDCs) by countries such as China, the UAE, and the EU marks a new phase of global monetary evolution, aiming to reduce transaction costs and currency volatility.

**Problems. Global Financial Instability**





One of the major problems of establishing global financial economies is global financial instability. When economies are profoundly interconnected, emergencies in one nation can rapidly spread to others, as was the case amid the 2008 Global Financial Crisis. As a result, many people have wrongly identified the problem or focused too much on some issues while ignoring other, more important ones. There are many different factors to consider, and some involve different fields like economics and global politics, which makes it hard to clearly understand what causes what. Also, different factors work together, like policies, big economic systems, and small economic situations. Some factors have become more popular in the media or with certain political groups, which makes it hard to look at the crisis objectively because of existing beliefs.

### **Inequality Between Nations**

Another significant problem of establishing global financial economies is the persistent inequality between nations. Many developing economies are spending a high share of government revenues on debt interest. In 2024, 61 developing countries allocated at least 10% of government revenues just to pay interest. This leaves relatively little leftover for public services. For low-income developing countries, effective interest rates and other borrowing costs have surged. The average public-debt-to-GDP ratio for these countries decreased slightly 2024 vs 2023 but remains about 10 percentage points higher than pre-pandemic levels. . In numerous cases, obligation burdens and exchange awkward nature assist broaden the hole, catching low-income nations in cycles of reliance. [1] Without changes that prioritize inclusivity and reasonableness, worldwide budgetary integration dangers strengthening existing disparities instead of decreasing them.

### **Risks from Exchange Rate Volatility**

As with any economic variable, currency exchange rates are not static – they fluctuate over time due to several factors such as inflation, interest rates, political stability, and economic performance. This volatility in exchange rates represents an additional risk for foreign investors. Even if a foreign investment makes a profit on its own, a change in the exchange rate can eat into or even eliminate that profit when the investor converts it back into their home currency. For instance, if the home currency weakens compared to the foreign currency, the investor will receive less when they convert their returns back to the home currency. Foreign investments carry exchange rate risks, as profits or losses depend not only on performance but also on currency movements. Since these shifts are hard to predict, they add significant uncertainty. This highlights how closely global markets are interconnected and why careful risk management is essential in international investment decisions. [2]

### **Solutions**





1. The reason this problem is highlighted is that it proves the vulnerability of a globalized financial system: without strong preventive mechanisms, any local crisis can easily become a global catastrophe. Recent global events, such as the 2025 volatility in energy and food markets, have once again demonstrated how quickly regional disruptions can spread through interconnected financial networks. Therefore, solving this problem requires building early-warning systems, creating emergency stabilization funds, and strengthening international cooperation between central banks and financial regulators. In this regard, the International Monetary Fund (IMF) launched its 2025 Global Financial Stability Initiative, aimed at improving cross-border data sharing and crisis forecasting tools among member states.

By coordinating policies and ensuring rapid collective responses, the global economy can reduce the likelihood of repeating the mistakes of 2008 and better protect both developed and developing countries from future crises. The Bank for International Settlements (BIS) also expanded its “Global Crisis Response Network” in 2025 to enhance joint liquidity support and policy coordination during financial shocks.

2. To mitigate inequality between nations, strategies must prioritize fair participation in the global financial system. In 2025, the World Bank emphasized that developing countries paid a record US \$1.4 trillion in foreign debt service in 2023, underlining the need for fairer debt restructuring and relief programs to reduce fiscal pressure on low-income nations. Debt relief and restructuring programs are vital to reduce the burden on low-income countries, freeing up resources for education, healthcare, and infrastructure development.

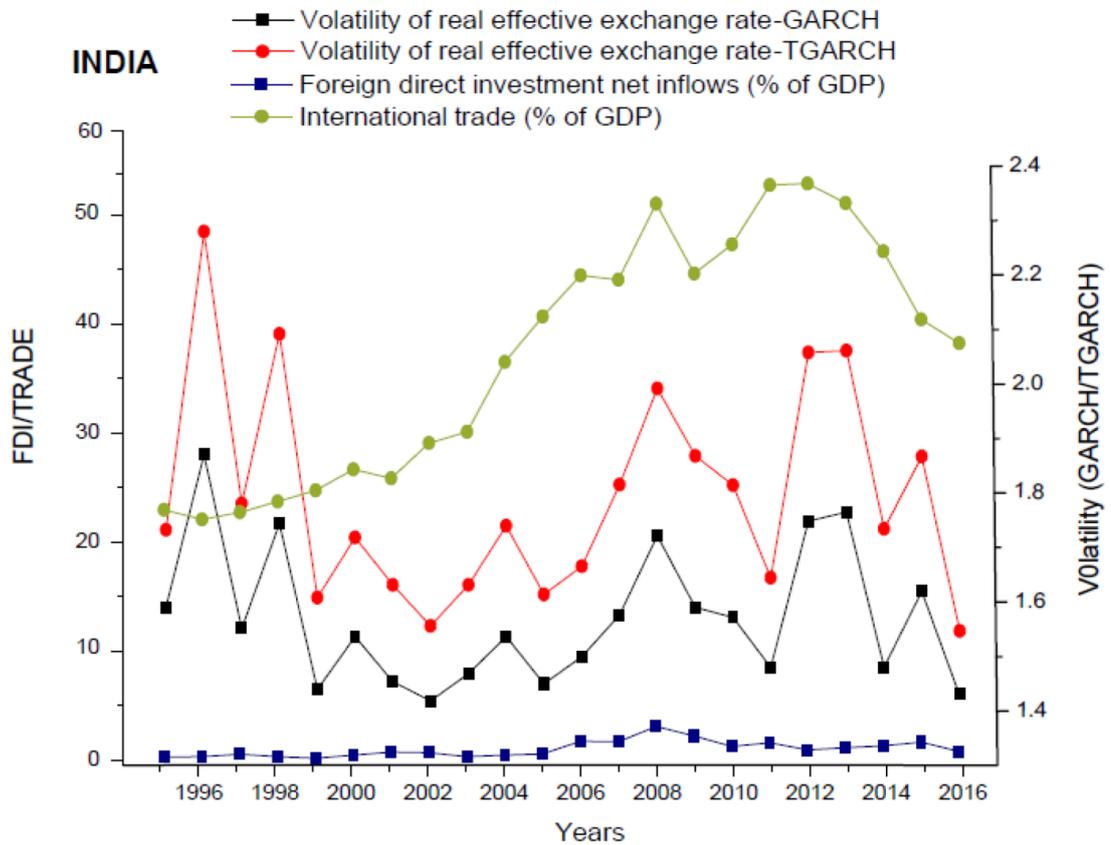
Expanding microfinance initiatives and access to affordable credit can empower small businesses and local entrepreneurs in developing nations, thereby reducing dependence on external capital. Recent IMF reports highlight that digital microfinance platforms, especially in Africa and South Asia, have expanded financial inclusion to over one billion people by 2025. Furthermore, targeted investments in digital infrastructure and financial technology would bridge the technological gap, ensuring broader access to global markets. In 2025, several central banks—including those of Singapore and Brazil—adopted AI-driven currency forecasting systems to better manage exchange rate risks and market volatility. AI-driven forecasting models that process large datasets, including inflation trends, global interest rates, political developments, and trade flows, can generate more accurate short-term and long-term predictions of currency movements. These insights allow investors and policymakers in both developed and developing countries to anticipate risks and adjust their strategies in advance.

Finally, enhancing the representation of developing economies in international organizations such as the IMF, World Bank, and WTO would





promote more balanced policymaking and foster inclusivity in global financial governance. The IMF's 2025 Governance Reform Proposal aims to increase the voting share of emerging economies, helping ensure fairer global financial decision-making.



**Figure.** reflects the higher volatile years for India are 1996, 1998, 2008, and 2013, and less volatile years are 1999 and 2016 in terms of exchange rate volatility measured with both GARCH and TGARCH models. For India, the years of 1998 and 2007 are reflected at the switch points. [4]

3. Managing the risks of exchange rate changes requires both preventive measures and adaptive responses. At the global level, stronger cooperation among central banks can stabilize currencies and reduce extreme fluctuations. For example, in 2025 the Bank for International Settlements (BIS) expanded its mBridge initiative, connecting over 20 central banks to coordinate digital currency settlements and enhance exchange rate stability. Countries with weaker currencies should focus on building foreign exchange reserves and maintaining transparent monetary policies to strengthen investor confidence.

At the institutional level, tools such as hedging, forward contracts, and currency swaps help investors minimize exposure to currency risks, while diversification across regions and currencies lowers the impact of local shocks. According to the IMF's 2025 Financial Stability Report, emerging-market institutions increasingly use AI-assisted hedging models, which have reduced transaction risks by nearly 15 percent. In addition, artificial





intelligence (AI) can enhance forecasting accuracy by analyzing large datasets such as inflation, trade flows, and geopolitical signals to predict exchange rate shifts more reliably.

Meanwhile, digital payment platforms and blockchain-based financial systems can improve transaction transparency, reduce costs, and facilitate faster cross-border settlements, thereby lowering vulnerabilities associated with currency mismatches. The 2025 World Economic Forum report highlights that blockchain-based settlement networks now process over 10% of global cross-border payments, demonstrating their growing importance in financial resilience. By integrating advanced technologies with traditional financial strategies, countries and investors can manage exchange rate volatility more effectively, promoting a more resilient and stable global financial system.

**Conclusion.** In conclusion, establishing a resilient and inclusive global financial system requires addressing both structural weaknesses and emerging digital-era risks. Persistent inequalities between nations, unstable currency movements, and the recurrence of crises such as that of 2008 continue to expose the vulnerabilities of financial globalization. However, the developments of 2025, such as the wider use of AI in risk forecasting, blockchain-based settlement networks, and central bank digital currency cooperation demonstrate that technology can also serve as a tool for stability and inclusion. Strengthening international coordination through initiatives like the IMF's Global Financial Stability Framework and the BIS's mBridge project can enhance crisis preparedness and ensure fairer participation for developing economies. Ultimately, the future of global finance depends on balancing innovation with fairness ensuring that technological progress benefits all countries and contributes to a more stable, transparent, and sustainable world economy.

#### Resources:

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