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**Evolution of Tools and
Approaches within the Enlarged
Global Financial Safety Net in
Response to the COVID-19 Crisis**

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Abbreviations

ADB	Asian Development Bank	GFSN	Global Financial Safety Net
AE	advanced economies	IADB	Inter-American Development Bank
AfDB	African Development Bank	IBRD	International Bank for Reconstruction and Development
AIIB	Asian Infrastructure Investment Bank	IDA	International Development Association
AMF	Arab Monetary Fund	IFI	International Financial Institution
AMRO	ASEAN+3 Macroeconomic Research Office	IMF	International Monetary Fund
ASEAN	Association of Southeast Asian Nations	IsDB	Islamic Development Bank
BSA	bilateral swap arrangement	KR	Kyrgyz Republic
BRICS CRA	BRICS Contingent Reserve Arrangement	LICs	low-income countries
CCRT	Catastrophe Containment and Relief Trust (IMF)	MCD	Middle East and Central Asia
CMIM	Chiang Mai Initiative Multilateralization	MDB	multilateral development bank
DSSI	Debt Service Suspension Initiative	MIC	middle income country
EAEU	Eurasian Economic Union	NDB	New Development Bank
ECB	European Central Bank	PBL	policy-based lending
ECF	Extended Credit Facility	PLL	precautionary and liquidity line
EDB	Eurasian Development Bank	PRGT	Poverty Reduction and Growth Trust (IMF)
EFF	Extended Fund Facility	RA	Republic of Armenia
EFSD	Eurasian Fund for Stabilization and Development	RCF	Rapid Credit Facility
EMDEs	emerging market and developing economies	RB	Republic of Belarus
EMEs	emerging market economies	RF	Russian Federation
ESF	Exogenous Shocks Facility	RFA	regional financing arrangement
ESM	European Stabilization Mechanism	RFI	rapid financing instrument
FCL	flexible credit line	RK	Republic of Kazakhstan
FLAR	Latin American Reserve Fund (Fondo Latinoamericano de Reservas)	RT	Republic of Tajikistan
GRA	General Resources Account	SBA	stand-by arrangement
G-20	Group of Twenty (Group of 20)	SCF	standby credit facility
		SDR	special drawing right
		UCT	upper credit tranche
		WB	World Bank

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Executive Summary

The EFSD Chief Economist Group continues the series of working papers on global financial safety net (GFSN) functioning. The previous paper “Global Financial Safety Net in Eurasia: Accessibility of Macroeconomic Stabilization Financing in Armenia, Belarus, Kyrgyzstan, and Tajikistan” provided estimates for the availability of stabilization financing for Armenia, Belarus, the Kyrgyz Republic and Tajikistan (four EFSD borrowing states).

This working paper provides the analysis how the GFSN responded to pandemic on global level and on regional level (in the EFSD countries). On the basis of the analysis the authors describe the benefits and drawbacks of each GFSN element and assess the work of the GFSN as a system. This allows authors to make policy considerations on how to increase effectiveness of the Global Financial Safety Net.

CURRENT ASSESSMENT

Unprecedented policy measures amounted to \$16 trillion on both the domestic and international levels have helped mitigate the adverse effects of the COVID-19 crisis. In addition, swift progress in the development of vaccines and rapid adjustment to remote working conditions and social distancing have played an important role in supporting the global rebound. International financial institutions approved around \$260 billion in COVID-19-related support through Q12021. On the global level, the IMF implemented a comprehensive action package, affirming its place at the centre of the Global financial safety net (GFSN). Regional financing arrangements (RFAs) provided financial support and adapted their lending policies, toolboxes, and internal procedures to expedite the provision of emergency support to their members. Multilateral development banks (MDBs) stepped up at the early stage of the pandemic and supported their states with significant volumes of emergency financing.

Since the outbreak of the COVID-19 pandemic, RFAs arrangements have been working hard to support their members through the unprecedented crisis. The measures are broadly of three types: revision of toolkits and policies; financing requests from members and lending capacity; and enhanced economic monitoring and capacity-building/technical assistance. From the currently existing RFAs, the AMF provided about \$2.02 billion and EFSD \$650 million of financial support to member countries, partly in combination with IMF programmes. In case of the European Stability Mechanism, large-scale precautionary arrangements in the amount of €240 billion contributed to instilling confidence, which helped stabilise financial markets and reduce risks to the financial stability of the euro area.

The extension of bilateral swap arrangements (BSAs) by central banks in major economies supported financial markets and helped ease international liquidity pressures. Since the

beginning of the COVID-19 crisis, the US Federal Reserve, European Central Bank and People's Bank of China's have expanded the set of countries they offered bilateral swap arrangements to.

The policy-based lending of MDBs and bilateral financial support proved to be significant channels of stabilization support during the COVID-19 crisis. MDBs have committed resources of around \$150 billion. In 2020, the debt service suspension provided by official bilateral creditors is estimated at \$5.7 billion (including the China Development Bank, participating as a commercial creditor). The importance of MDBs crisis response and bilateral financial support raises the need to better articulate their place in the Global Financial Safety Net.

EFSD recipient countries¹ have drawn on almost all layers of the GFSN, except BSAs, to mitigate the impact of the COVID-19 crisis. The funds disbursed from all sources in 2020 totalled at least **\$2.6 billion**. Their composition varies by country. Armenia received financing from the IMF. The Kyrgyz Republic had primarily bilateral financial assistance from Russia, the IMF, and MDBs for stabilization purposes. The IMF, EFSD, and MDBs were the three most significant sources for Tajikistan. In Belarus, Russian bilateral assistance and the EFSD were significant sources of stabilization financing.

Table. Stabilization financing in COVID-19 crisis, USD millions

Country	IMF	EFSD	MDBs	Bilateral financial support
Armenia	315	0	0	0
Belarus	0	500	0	1,000
Kyrgyz Republic	242	100	50	82
Tajikistan	189.5	50	120	63
TOTAL	746.5	650	170	1,145

Source: EFSD calculations, data as of 01.06.2021.

In Russia and Kazakhstan, MDBs were key international donors during COVID-19 crisis, with support amounting to \$2.75 billion. In Kazakhstan, the ADB provided a \$1 billion countercyclical loan along with co-financing from the AIIB under the AIIB's COVID-19 Crisis Recovery Facility, in the amount of \$750 million. In the Russian Federation, the New Development Bank extended a \$1 billion loan for supporting the emergency economic recovery response in healthcare sector.

¹ The EFSD is a regional financing arrangement. Of its six member states, four are recipients of funds: Armenia, Belarus, Kyrgyz Republic, and Tajikistan.

International cooperation has been a crucial component of the COVID-19 response. Institutions have been collaborating in order to effectively and efficiently utilize their resources and comparative advantages. During the initial COVID response stage, institutions actively exchanged information on assessments of vulnerabilities, financing gaps, policy responses, and possible financial interventions, specifically budget and balance-of-payment needs. In the EFSD member states, the donor community is acting through donor clubs, mission briefs, and on a bilateral basis to monitor each other's activities, to tailor volumes and conditionalities.

To sum up, we identify four main features of GFSN response to the COVID-19 crisis:

- | | |
|---|--|
| 1 The IMF has been exceptionally quick to respond to the urgency of the situation, affirming its place at the centre of the Global Financial Safety Net. | 2 Cooperation within the existing IMF-RFA network was on-going and helped create synergies when supporting member countries. |
| 3 RFAs were only partly tapped but have also acted through precautionary arrangements, monitoring, and technical assistance. | 4 Significant amounts of MDB budget support and bilateral stabilization financing demonstrate its high importance, especially for emerging economies. |

The IMF has been able to quickly adapt its policies and procedures to support the membership and mitigate the immediate impact of the pandemic on the global economy. Cooperation efforts within the existing IMF-RFA network mitigated the impact of the pandemic on the global economy and made a positive contribution to supporting the economies. Multiple exchanges with the IMF and other development partners allowed effective coordination and timely response. Since the outbreak of the COVID-19 pandemic, RFAs have been working hard to support their members through the unprecedented crisis. The rapid response and considerable size of the financial resources allocated by MDBs in 2020 demonstrates the importance of articulating their place in the GFSN.

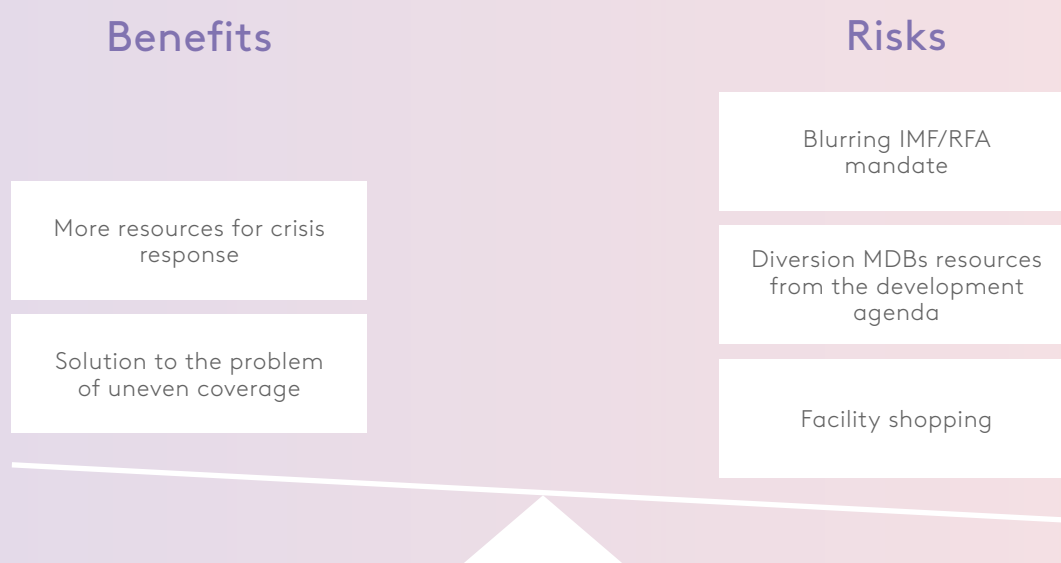
POLICY IMPLICATIONS

The COVID-19 crisis has demonstrated the scope for further improvements and adjustments in the Global Financial Safety Net. BSAs remain generally limited to advanced economies and a narrow subset of emerging market economies. The RFAs were broadly untapped, despite the unprecedented global recession, suggesting a need to refine the RFA role, its specificity and fine-tune their toolkits. The MDBs have significantly increased their policy-based lending to help members to address emergency conditions. The growing role of the MDBs in providing budget support loans points to the need to rethink of their place in the GFSN.

As the global recovery progresses, the GFSN network is expected to gradually shift to supporting structural transformation of countries to the new post-pandemic circumstances. This transition from the immediate response to a more structured approach will be challenging, given high

uncertainty about the global outlook and the pandemic path, limited policy space, higher liquidity and solvency risks, and the remaining gaps and new developments in the GFSN. The medium-term GFSN response may require higher levels of financing to help countries recover from the pandemic and achieve sustainable and inclusive growth, including an increase in concessional financing, as well as additional instruments and changes in the IFIs' toolkits.

MDBs acting as a part of the GFSN may have positive effect but may also raise new considerations. On the one side, first, the pool of available resources for stabilization financing effectively becomes larger. Second, the expansion of the GFSN concept — an 'Enlarged GFSN' — provides a solution to the problem of uneven coverage. On the other hand, the mandates of the IMF and RFAs, on the one hand, and those of MDBs may overlap. Although, MDBs are indispensable source of development finance, they may be moving away from their core tasks (development finance, poverty alleviation, infrastructure financing). This diversion of MDBs resources may effectively reduce the scope of SDGs financing. Finally, the probability of a successful facility shopping on the side of recipient countries becomes higher. It is utmost important to note that country ownership and strong policy measures supported by MDB financing is in the core of sustainability and effectiveness of a program. This is also relevant policies and reforms during the recovery period.



A potential solution to these challenges might be along the following lines. The IMF and RFAs efforts to support macroeconomic stability should be effectively and in a coordinated manner complemented by MDBs budget support operations during crises. While the IMF and RFA finance BoP and budget gaps, MDBs might add value more explicitly by conducting development policy operations (DPOs) etc., supporting long-term development goals. Their operations, particularly at the times of economic and financial crises, require close coordination between the IMF, RFA and MDBs. This concept would ideally require articulation at the level of G-20.

1. Introduction

The coronavirus disease (COVID-19) outbreak that began in early 2020 has left long-lasting scars on the world economy. The initial supply shock from government-imposed lockdowns and containment measures at the onset of the pandemic gave rise to an unprecedented demand shock that not only has had health and economic consequences, but also social ones. The health crisis has been accompanied by an unprecedented economic crisis, with millions of jobs lost and companies closed. Most governments have spent significant amounts to manage the crisis and promote recovery.

In March 2020, the G20 declared, “We commit to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience” (G20, 2020).

International financial institutions (IFIs) have pledged to do whatever it takes to enable emerging market and developing countries to fill financing gaps to combat COVID-19 and subsequent economic crises. The functions of anti-crisis support and macroeconomic stabilization are implemented by the institutions of the Global Financial Safety Net (GFSN). Since 2008, G20 leaders have repeatedly committed themselves and persuasively argued in favour of ensuring a stronger GFSN to secure global financial stability. The GFSN is an essential pillar for supporting a well-functioning international financial architecture.

Since the 2008 Global Financial Crisis, the GFSN has evolved in a decentralized network of global, regional, and bilateral sources of financial support. For a long time, the IMF was the core available source of stabilization financing for the majority of countries. Today, the GFSN includes country FX reserves on the national level, bilateral swap arrangements (BSAs) between central banks, regional financing arrangements (RFAs), and the IMF on the global level. The situational preparedness of the GFSN in general has skyrocketed over the past decade. From a compact two-tier system with FX reserves and the IMF, the GFSN has evolved into a multi-tier and much less centralized system, with additional elements at the regional and bilateral levels. Currently, the amount of available financing under the GFSN has reached the equivalent of 4% of world GDP (Mühlich et al., 2020). The growth of the regional component of the GFSN in the last decade has amounted to \$1.1 trillion due to the new RFAs, and coverage was expanded to 43 countries. Another trend of the last decade has been the expansion of possible sources of stabilization through financing from multilateral development banks (MDBs) and bilateral financial support (Vinokurov and Levenkov, 2021a). Although MDBs in the legal sense are development institutions and not stabilisation mechanisms, de facto they are increasingly playing the latter role as well.

The GFSN institutions are meeting the massive financing needs caused by the COVID-19 pandemic and its economic fallout. IFIs approved \$262.4 billion in COVID-19-related support through Q1 2021, according to the CSIS Economics Program (CSIS, 2021).

On the global level, the IMF implemented a comprehensive package of actions, affirming once again its place at the centre of the Global Financial Safety Net. The IMF has faced the pandemic crisis in

better shape than it was at the time of global financial crisis. Today the IMF's overall lending capacity amounts to about \$1 trillion, providing a relatively adequate scope to respond to its members' needs.

RFAs have also stepped up to support their members, including through modifications to their instruments and policies, introduction of fast-track lending requests, and provision of policy and technical advice. At the 2020 High-Level Dialogue of the Regional Financing Arrangements and the IMF (IMF-RFA, 2020), the heads of the institutions indicated that the IMF and RFAs are committed to continue working closely together to ensure timely information exchange and to leverage each other's comparative advantages to help their common members address the effects of the crisis and navigate towards stabilization and recovery. Where appropriate and feasible, the IMF and RFAs are cooperating to facilitate co-financing operations, to address our members' needs, and to stand ready to provide technical assistance and policy advice.

In addition to the above GFSN elements, there are other sources of stabilization funding that are significant both for the donor community and for the recipients. Sometimes their volumes may exceed the level of actual support from the GFSN elements mentioned above. These sources include policy-based lending (PBL) provided by multilateral development banks, as well as bilateral financial support in a form of Debt Service Suspension Initiatives.

The GFSN response so far cannot be assessed in isolation from the unprecedented fiscal, monetary, and financial support packages that were implemented in advanced countries and many emerging market economies. These measures have played a critical role in mitigating the global slowdown and supporting global recovery. The record capital outflows were cushioned by central bank actions in advanced economies, including monetary easing and large asset purchase programmes. Many emerging market economies on their own have been agile in responding to the economic fallout, which suggests important progress in strengthening their macroeconomic performance and implementing structural reforms over the recent decade. These policy actions have helped many countries to preserve adequate levels of international reserves and maintain market access.

Unprecedented actions have softened the impact of COVID-19. At the same time, the COVID-19 crisis has demonstrated the need to further strengthen the GFSN. BSAs remain generally unlimited to advanced economies and a narrow subset of emerging market economies. The RFAs were broadly untapped, despite the unprecedented global recession, suggesting the need for additional toolkits and better coordination with the IMF. The MDBs have significantly increased their policy-based lending to help members to address emergency conditions. The growing role of the MDBs in providing budget support points to the need to better articulate their place in the GFSN.

Many IFIs have experienced significant adjustments in their policies and practices compounded by the virtual environment, and the effectiveness and possible implications of these changes remain to be evaluated. The IFIs' response to the pandemic has itself created additional risks for the respective institutions, which need to be addressed going forward.

This working paper is organized in the following way. Section 2 presents an analysis of Global Financial Safety Net response globally. Subsection 2.1 reviews the dynamics of FX reserves; subsection 2.2 identifies

BSAs based on public data; subsection 2.3 describes the RFAs' actions; subsection 2.4 analyses the IMF role in the COVID-19 crisis; subsection 2.5 discusses MDB activities in the context of stabilization financing goals and the amount of such support; subsection 2.6 describes bilateral financial support in various forms. Section 3 presents an analysis of Global Financial Safety Net response in EFSD regions of operations. In section 4 we identify key trends in the functioning of the Global Financial Safety Net. In section 5 we analyse the challenges ahead. The COVID-19 pandemic has highlighted the need to strengthen the GFSN. With a global recovery in sight, international policy coordination is much needed in the face of possible short-term shocks and the long-term challenges. Subsection 5.1 identifies a need to shift to a more structured approach in 2021–2022. Subsection 5.2 reviews a situation with debt in global aspect and in EFSD recipient countries. Subsection 5.3 analyses the role of MDBs in GFSN. The conclusion summarizes the results of our work.

2. The GFSN immediate response to COVID-19

In this section, we provide an analysis of the reaction of international financial institutions to the economic crisis evoked by the spread of COVID-19. We take into account four classic elements: first, countries' own reserves; second, bilateral swap arrangements; third, regional financing arrangements; and, fourth, the International Monetary Fund. Each of the other layers of the GFSN is important in its own way in overcoming and preventing financial crises.

We also expand the GFSN by two additional elements: multilateral development banks and bilateral financial support for anti-crisis and macroeconomic stabilization purposes (Box 1).

Box 1. The concept of an enlarged GFSN

The GFSN is essentially dynamic, which implies a constant evolution of approaches to this system. To this end, we suggest the concept of an enlarged GFSN, namely its expansion by two additional elements: multilateral development banks and bilateral financial support (Vinokurov and Levenkov, 2021b; Vinokurov, Levenkov and Vasiliev, 2020). Multilateral development banks and bilateral support already play a very substantial role in the regional financial safety net architecture. Both elements of the international financial architecture are partly involved in providing anti-crisis and macroeconomic stabilization support at concessional terms.

Budget support in the form of policy-based lending are the MDBs' instruments that are closest in form and content to those of the IMF and regional financing arrangements. Thus, policy-based financing from MDBs can be considered as an alternative (complementary) source of stabilization support, both preventive and anti-crisis. Such sources of liquidity provide additional means to counter economic shocks; but there are also risks of postponing the necessary reforms by abandoning IMF programmes and/or other elements of the GFSN, where financing conditions may require more drastic measures than the same MDB budget support programmes.

Anti-crisis bilateral financial support can be considered as an additional source of stabilization financing. As a rule, anti-crisis funding may come from the largest economies in the region. The structure and volume of such support is influenced by the motives for providing it. A significant drawback of such a source of funding is its unpredictability, due to a lack of formalization. Additional difficulties arise in the process of identifying such assistance and in the collection of statistical information.

The phenomenon of an enlarged GFSN is not limited to one region, but has universal significance. Budget support by MDBs is performed both at the regional level — in fact at the level of the activity of RFAs — and at the global level, where the IMF operates. The MDBs, with their budget support programmes, complement the RFAs that already exist in a region, such as, in the case of the Asian

Development Bank and the CMIM in Asia. In the case of the African Development Bank, it is actually filling the gap left because there are no RFAs in that region. On the global level, the World Bank complements the efforts of the IMF.

2.1. International reserve assets

International reserves are a country's own resources, which can be used without any conditions or repayment obligations and are considered a means of self-insurance.

Central banks in emerging economies intervened heavily in FX markets in the early stages of the COVID-19 crisis, to stem currency depreciation. In aggregate terms, the size of FX interventions peaked in March 2020; after that, they slowed down, and some countries even managed to resume reserve accumulation. However, in some cases (e.g., Turkey and Egypt) the size of FX interventions was significant; note that on the eve of the COVID-19 crisis, FX reserve buffers were already below the level considered adequate by the IMF for several countries, implying limited space for further interventions.

During the COVID-19 crisis, countries have used their FX reserve buffers less than they did in the global financial crisis (GFC). Since the outbreak of the pandemic, the fall in FX reserves, as a proxy for FX interventions carried out to counter currency depreciation, has been on average 0.5% of GDP, against 1.7% during the GFC (Aizenman, Ito, and Pasricha, 2021).

Overall, the lower use of international reserves during the COVID-19 crisis may be explained by three main factors: 1) the improvement of global financial conditions and the easing of strains in FX markets observed since April 2020 reduced the need for FX interventions; this improvement occurred earlier than during the GFC; 2) some central banks may have allowed exchange rates to depreciate (Mühleisen et al., 2020; Aguilar and Cantú, 2020); and 3) the macroprudential policy measures that had been introduced by several emerging economies since the GFC were at least partly successful in containing currency mismatches, and thereby reduced the need for FX interventions and allowed central banks to focus more on stabilizing the economy (Band of England, 2020).

2.2. Bilateral swap arrangements

As of March 2021, about \$1.75 trillion was accessible in BSAs, according to the interactive database compiled by the Institute for Latin American Studies at Freie Universität Berlin and the Global Development Policy Center at Boston University. These swaps are being offered by a wide range of central banks, predominantly the US Federal Reserve and the People's Bank of China (Mühlich, Fritz, and Kring, 2021). In previous episodes of financial instability, uncertainty made investors rush to hold US dollar-denominated assets, creating a dollar shortage. To prevent this situation, the Federal Reserve Board (Federal Reserve System, 2020), in response to the COVID-19 pandemic, has already renewed its bilateral swap arrangements with nine central banks with which it had such agreements in 2008

(Australia, Brazil, Denmark, South Korea, Mexico, Norway, New Zealand, Singapore, and Sweden). These BSAs supplemented the standing swaps with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. The maximum amount that central banks could raise was set between \$30 billion and \$60 billion.

The Fed chose to reactivate BSAs with nine economies because of these economies' large trade ties with the US. This is in contrast with the previous episode of dollar shortage in 2008, when the US signed BSAs with emerging economies due to their financial ties with the United States. The existence of formal military alliances was also a determinant for the Fed to reactivate the swaps for these economies. Economies with strong financial and trade ties with the US tended to have more access to dollar liquidity lines. Global major trading centres also had greater access to US dollar liquidity via the Fed, regardless of whether they had more financial or trade ties with the US. The amounts auctioned by central banks were larger for currencies that faced greater exchange rate volatility, and when global financial conditions were more unstable, as captured by a higher volatility index (Aizenman, Ito, and Pasricha, 2021).

Besides US dollar facilities, liquidity arrangements in euros are playing an increasing role. The European Central Bank in early 2020 provided bilateral swap arrangements with the non-euro area central banks of Albania, Croatia, Hungary, the Republic of North Macedonia, Romania, San Marino, and Serbia. The objective of these euro liquidity BSAs was to address possible euro liquidity needs in non-euro area countries in the presence of market dysfunctions due to the COVID-19 pandemic. In February 2021, the ECB decided to extend temporary euro liquidity BSAs to March 2022 (ECB, 2021).

The People's Bank of China (PBOC) continues to play an important role in providing BSAs. Unlike the Fed and ECB, the main purpose of the PBOC's BSAs was to facilitate the development of trade with other countries and to attract investment.

2.3. RFAs

Since the outbreak of the COVID-19 pandemic, RFAs have been working hard to support their members through the unprecedented crisis. The measures are broadly of three types: revision of toolkits and policies; financing requests from members and lending capacity; and enhanced economic monitoring and capacity-building/technical assistance. From the currently existing RFAs, only the AMF and EFSD provided financial support to member countries, partly in combination with IMF programmes.

The AMF has committed about \$2.02 billion in response to requests from member countries for urgent financing and support for reform programmes, including requests received for trade finance by its affiliate the Arab Trade Financing Programme. The AMF has also been actively providing technical advice to member countries regarding economic, fiscal, and financial policies. The AMF has also provided training to government officials in member countries on issues related to reforms and crisis management. In this context, the AMF launched a distance learning platform to support the delivery of its planned training activities.

The EFSD is implementing its RFA mandate during this crisis and has responded to the COVID pandemic in all four recipient economies (second RFA after AMF). For purposes of stabilization, the EFSD provided budget and balance of payments support, which was similar in substance for the member countries. For purposes of development, the EFSD announced emergency social grants that will support health sector projects in countries with low per-capita income (see more in section 3).

The EFSD applied existing instruments for the COVID-19 support programmes in 2020 (Box 2).

Box 2. EFSD toolkit for COVID-19 response

During the COVID-19 pandemic, the EFSD has engaged its toolkit to the extent possible.

The toolkit has one and only one instrument to deal with balance of payment and budget pressures: financial credit. A financial credit is a policy-based loan that is extended to member states for balance of payment or budget support and is backed by the country's policy matrix, normally on a concessional basis (for more about EFSD instruments, see Vinokurov, Levenkov, and Efimov, 2019).

During the acute phase of COVID-19, the EFSD has supported emergency stabilization efforts of the member states for urgent BoP/budget needs. The institution provided budget and balance support that was conditioned with macro and fiscal safeguards, and national plans countered the impact of the pandemic. The EFSD has benchmarked the programmes that were supported by the IMF with the RCF and the RFI.

The main adaptation of the toolkit addressed the fact that EFSD financial credits are generally meant to be multi-tranche, and are disbursed against implementation of structural reforms and maintaining sound macroeconomic policies. However, in the context of the pandemic, such requirements obviously became excessive, so the EFSD decided to implement a commitment-based rather than implementation-based approach, similar to that of the IMF's Rapid Credit Facility.

The CMIM, ESM, CRA, and FLAR were ready to respond, but their assistance was not requested.

The ASEAN+3 Macroeconomic Research Office – the surveillance unit of the Chiang Mai Initiative Multilateralization (CMIM)—noted that it had intensified regional surveillance efforts to provide “timely risk assessments and policy advice”, and committed itself to continue working with member-country authorities to “enhance the operational readiness of the CMIM” (AMRO, 2020). ASEAN+3 Finance Ministers and Central Bank Governors agreed on three milestone goals, which will strengthen the CMIM as a reliable self-help mechanism in the region. The first is to increase the IMF De-Linked Portion from 30% to 40%. This will enhance the CMIM's operational readiness by bolstering its ability to provide swift and sufficient financial support to members in need without IMF financial

assistance. The second is to institutionalize local currency contributions within the current existing amount in the CMIM on a voluntary and demand-driven basis. The third is to clarify the conditionality framework, which establishes a more coherent framework for conditionality design in the event of CMIM activation, with or without IMF financial assistance, thereby ensuring its smooth implementation.

In April 2020, the Eurogroup committed €540 billion to fight the COVID-19 crisis, from which €240 billion was in the form of support to sovereigns from the ESM. The ESM Board of Governors approved on 15 May 2020 the establishment of the Pandemic Crisis Support (PCS) credit line, to provide a safety net for sovereigns during the coronavirus crisis. This credit line is based on the ESM's Enhanced Conditions Credit Line. The PCS is part of the first European support package in response to the COVID-19 crisis, which was adopted by euro area finance ministers. The PCS will be available until 2022 and have favourable lending terms. The pricing is lower than that of the ESM's usual precautionary credit lines; the maximum average maturity of the loans would be 10 years. Each euro area country will be able to access 2% of its 2019 gross domestic product. Applying for the credit line does not automatically mean drawing on it. In fact, some countries may use it as insurance to reassure investors that they have access to a low-cost financing option.

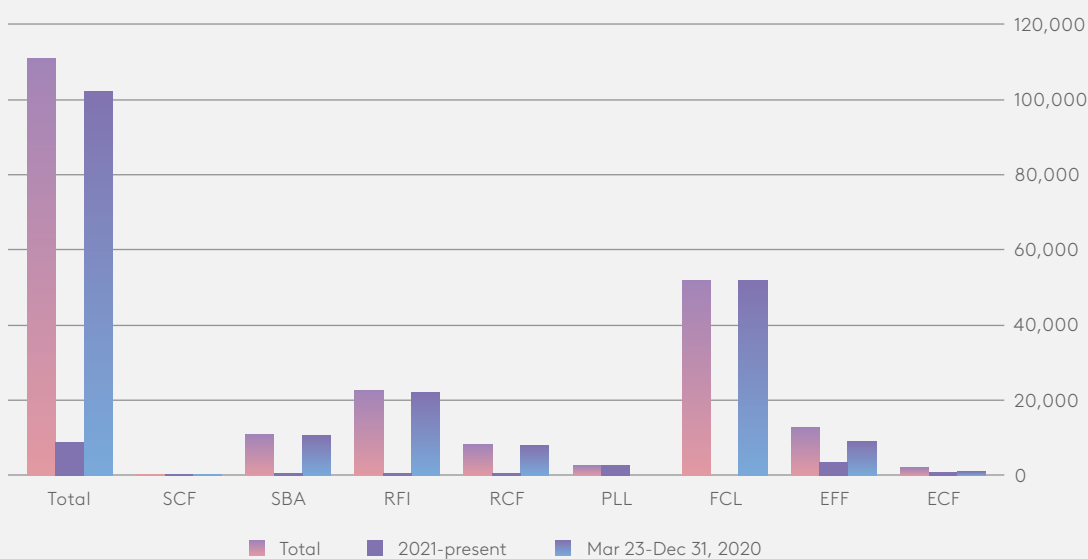
The Latin American Reserve Fund (FLAR) is publicly committed to mobilizing its capital to combat the economic effects of COVID-19, and is also seeking to enrol new members to grow its resource base (Uribe, 2020). FLAR's Board of Directors approved an exceptional and temporary credit line (COVID external support credit line) with an extended maturity of up to 5 years and up to a 3-year grace period, as compared to the up to 3-year maturity and up to 1-year grace period offered in its standard Balance of Payments Support Line. This new credit line will be available until 31 December 2021. The Board of Directors also approved a 62% increase in the FLAR's lending capacity and authorized the Executive President to set up a Medium Term Note Programme to be ready to raise funds in international markets, if needed. This would enable the FLAR to mobilize resources amounting to up to \$6.8 billion to support its member countries.

2.4. IMF

The IMF has been playing a critical role in supporting countries' responses to the pandemic, demonstrating its central position in the Global Financial Safety Net. The IMF quickly adapted its policies and procedures to support the membership and mitigate the pandemic's immediate impact on the global economy. The IMF had to adjust quickly across the main pillars of its activities, including surveillance, lending, and capacity development, against the background of remote working conditions, broad-based travel bans, and abrupt changes in global economic conditions and near-term priorities. The key modifications included streamlining procedures, increasing access limits to the Fund's resources, expanding the IMF toolkit, and strengthening governance safeguards.

As of 1 June 2021, the IMF has supported more than 85 countries with over \$110 billion, using a variety of instruments (Figure 1).

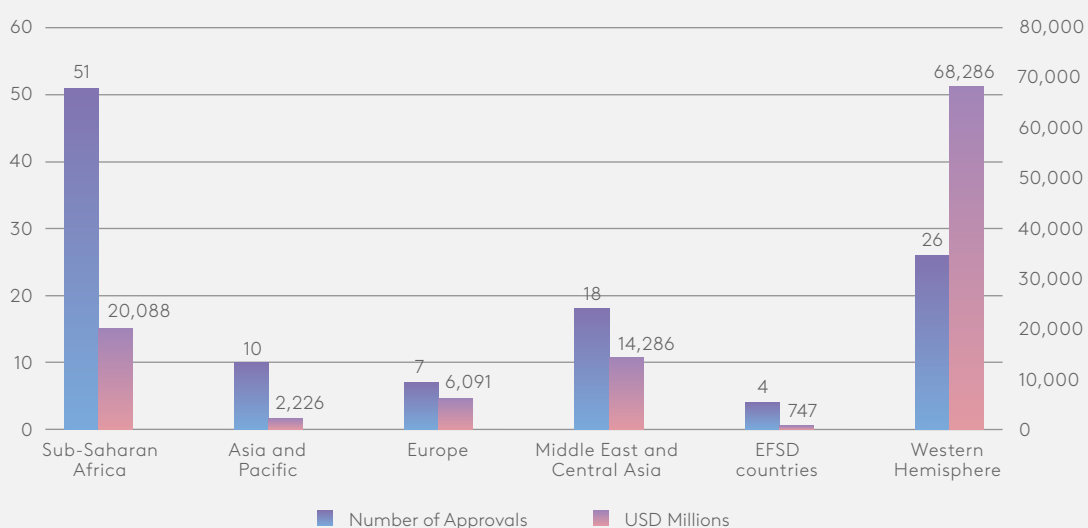
Figure 1. IMF arrangements, USD millions



Source: IMF data, time period in the figure from March 23, 2020 to June 1, 2021.

Since the beginning of the global pandemic, the IMF has significantly increased its financial assistance for its members, mainly through emergency financing instruments and precautionary lending tools (Figure 2).

Figure 2. Financing requests approved since the start of the pandemic



The regional distribution of countries follows the organizational distribution at the IMF. Data for MCD include EFSD countries of operations; Data on the EFSD countries of operations reflect authors calculations.

Source: IMF data, time period in the figure from March 23, 2020 to June 1, 2021.

The use of upper credit tranche (UCT)-quality programmes, such as Stand-By Arrangements (SBAs) or the Extended Fund Facility (EFF), has remained limited since March 2020. The IMF's financing was critical to help countries address urgent balance of payments and fiscal needs and to cushion the risks of more severe humanitarian costs and economic disruptions. It also helped catalyse additional concessional financing from donors and other multilateral institutions.

The IMF has concentrated its financial assistance through the Rapid Financing Instrument (RFI) and the corresponding Rapid Credit Facility (RCF) for low-income countries (LICs). These tools are designed to provide rapid assistance to countries with urgent balance of payments needs, including from commodity price shocks, natural disasters, and domestic fragilities. The IMF support through these emergency instruments was provided in the form of upfront outright disbursements, up to 100 percent of the country's quota in the IMF, and without ex post programme-based conditionality or reviews.

Precautionary arrangements, such as the Flexible Credit Line (FCL) and Precautionary Liquidity Line (PLL), have been playing an important role in mitigating the impact of the global crisis, as they supported market confidence in countries' resilience and are a valuable tool during a liquidity squeeze on many emerging market economies. These arrangements can also help prevent recourse to the damaging entrenched use of capital flow measures as a forced strategy. Since the start of the crisis, the IMF has approved new FCLs totalling over \$51 billion for Colombia, Chile, and Peru.

In addition to the substantial increase in concessional financing, the IMF has provided debt service relief to 29 of its poorest member countries on their IMF obligations, through the Catastrophe Containment and Relief Trust (CCRT), in the total amount of around \$740 million (as of 1 June 2021). In the case of a successful fundraising campaign, additional debt relief to these members could be provided for another six months until April 2022.

The IMF has been also playing a key role in supporting the G20's debt initiatives, the Debt Service Suspension Initiative and the Common Framework.

At the beginning of the crisis, the IMF endorsed temporary increases in access limits under the IMF emergency financing instruments. Under the RCF and RFI, the limits on annual access were raised from 50 to 100 percent of quota, and the limits on cumulative access were increased from 100 to 150 percent of quota. These limits were extended through the end of 2021. The Executive Board has also supported temporary increases in the annual access limits in the General Resources Account (GRA) from 145 to 245 percent of quota, and under the Poverty Reduction and Growth Trust (PRGT) from 100 percent to 150 percent of quota. In March 2021, the IMF further increased the overall normal annual access limit and the normal cumulative access limit under the PRGT to 245 percent and 435 percent of quota, respectively.

The IMF has swiftly developed a policy tracker that helped strengthen monitoring of cross-country experience in dealing with the crisis. The policy tracker was complemented by a special series of analytical notes on fiscal, monetary, financial, statistical, structural, and legal policies. These notes have

been useful in providing timely policy advice and guidance to the membership on how to manage the COVID-19 crisis, in particular at the time when Article IV consultations and Financial Sector Assessment Programme (FSAP) missions had to be temporarily suspended due to the immediate pandemic effect.

Following several unsuccessful attempts, the IMF finally adopted a new liquidity instrument, the Short-Term Liquidity Line (SLL), which was designed to provide liquidity support with a revolving access of up to 145 percent of quota to members with very strong policy frameworks and fundamentals, who are facing potential short-term moderate balance of payments difficulties. As of June 2021, the SLL has not been used by any of the IMF members, possibly due to its high qualification bar (the same as for the FCL), and relatively low access level. Perhaps the SLL could be useful in the coming years by supporting a transition from the high-access FCLs. Broader use of the precautionary instruments, combining the IMF's resources with those of central banks and/or RFAs, could be further explored to strengthen the GFSN.

2.5. Multilateral development banks

MDBs have actively supported governments' stabilization efforts. Among the central roles of the MDBs are to expand fiscal space for MICs and LICs for development spending, as well as to catalyse private spending (Lee and Aboneaj, 2021).

The ADB responded rapidly to the first wave of COVID. On 18 March 2020 the bank announced a \$6.6 billion package to address urgent needs of its member states. In April 2020, the package was increased to \$20 billion, which was tagged as ADB COVID-19 Pandemic Response Option (CPRO) financing.

The ADB noted the need for additional sovereign expenditures support as well as private sector support. The bank further highlighted the provision of short-term working capital and extending resources to compensate for the effects of lower demand, reduced access to banks and financial market financing.

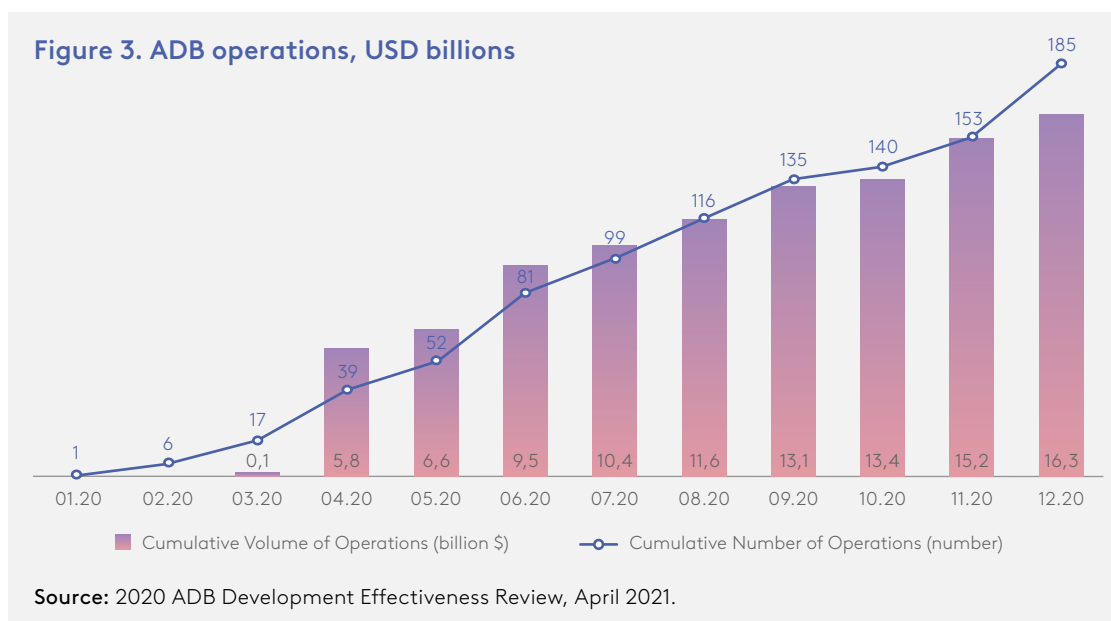
On an operational level, the ADB proposed temporary operational amendments in order to speed up approval procedures, and thereby make the resources available more quickly.

The ADB detected several operational constraints that impeded rapid response to the global pandemic. These include limitations of product lines and policies. For example, low-income countries that were most vulnerable to the pandemic do not have access to the Countercyclical Support Facility (CSF) — a facility that is similar to the IMF's stabilization lending. The ADB decided to make available a special option for the CSF, the COVID-19 Pandemic Response Option, which supports ADB member states with concessional financing limited to 0.5 percent of GDP, subject to implementation of a pandemic response plan.

In its 2020 Development Effectiveness Review, the ADB described the effects of pandemic support, and stated that the streamlining of operational procedures led to the following achievements: emergency assistance loans were processed in 3.8 months instead of the historical 8.8 months; policy-based loans

were processed in 3.1 months instead of 10.6–18.6 months; and countercyclical facility processing was reduced to 2.3 months from 6.5 months.

As a result of the 2020 COVID year, the ADB conducted 185 operations that amounted to \$16.3 billion, including \$13.3 billion sovereign lending (Figure 3).



The World Bank responded with its first list of projects in April 2020. The total envelope for its COVID response in 2020 was set at \$104 billion for the IDA and IBRD (\$160 billion for the World Bank Group) during a period of 15 months starting in February 2020. The bank refocused from regular operations to emergency response. Operations were targeted at four objectives: saving lives, protecting vulnerable groups, supporting economic activity, and strengthening policies, institutions, and investments. The World Bank also streamlined its procedures and operations to ensure that vulnerable member states received timely support. It took the following steps: increased the share of Development Policy Operations; partially redistributed or adjusted the current portfolio towards COVID operations; and conducted emergency COVID-19 operations under the Global COVID-19 Multiphase Programmatic Approach (MPA).

The Asian Infrastructure and Investment Bank (AIIB)—a new development partner that is working on a large-scale crisis for the first time — has provided a solid response. The pandemic forced the bank to adjust its toolkit, establishing a temporary COVID-19 Crisis Recovery Facility with up to \$10 billion. Financing under the Facility is available for 18 months through 16 October 2021. The facility aimed at financing immediate health-sector needs; supporting governments in responding to the economic impact of the pandemic by targeting economic resilience; and financing liquidity constraints in various sectors. The facility supports both sovereign and non-sovereign operations.

What is the most interesting from the standpoint of the GFSN is that the AIIB allowed use of the facility for policy-based lending, which is pretty far from the AIIB's core business and mandate. The

AIIB, however, decided on an exceptional basis to provide policy-based financing when the bank is invited by the borrower to co-finance projects with the World Bank and the Asian Development Bank, in coordination with the IMF. The AIIB also acknowledged that the emergency requires swift decisions. With this in mind, the bank streamlined processing and approval of projects through the COVID facility.

The Islamic Development Bank (IsDB) responded to the pandemic through its Strategic Preparedness and Response Plan (SPRP), which was launched in early April 2020 to support member countries' efforts to contain, mitigate, and recover from the impact of the pandemic. The programme is based on three pillars, "Respond, Restore and Restart", and includes the provision of emergency support to the health sector, and support for the member economies in sustaining growth and boosting recovery. The programme envisages catalysing private and public investment to intensify the development effect.

As of 9 March 2021, the IsDB had committed \$3.6 billion for COVID-19 response. From this amount, \$2.3 billion was approved. Among EFSD member states, the IsDB has provided support to Tajikistan (\$9.4 million) and the Kyrgyz Republic (\$15 million), mainly for raising the preparedness and response capability of the health sector by purchasing medical equipment to deal with the pandemic.

The New Development Bank, a newcomer like the AIIB in anti-crisis financing, rushed to the stabilization agenda with a total envelope of \$10 billion. In April 2020, the NDB Board of Directors discussed how the bank would support member states in relation to pandemic and agreed to set up an emergency facility backed with a policy framework for emergency operations.² The same month, the approach was supported by the NDB Board of Governors.³ In June 2020 the bank adopted the Policy on Fast-track Emergency Response to COVID-19.⁴ The approach was to provide sovereign emergency assistance in support of national programmes that addressed COVID-19 implications. The bank agreed to finance: 1) health measures for detecting, containing, and eliminating COVID-19, strengthening capacity to respond and prevent future occurrences; 2) strengthening social safety nets; 3) economic recovery policies.

Fifty percent of the \$10 billion package was for the most urgent needs, especially healthcare. The other 50% was provisioned for economic recovery. An amount could be allocated in one tranche with 12 months starting from detection of COVID-19 in a member state or the first government expenditures for COVID-19. This timeline for a temporary facility differs from other institutions' modality and is not practiced among other institutions operating in the EFSD region.

The NDB has allocated more than \$9 billion in support of government measures in the NDB's founding states (Table 1).

² NDB, April 2020. Minutes of the Twenty-Fifth Meeting of the Board of Directors of the New Development Bank (Videoconference) Held on April 16, 2020 at 19:30 (Shanghai Time), Available at: <https://www.ndb.int/wp-content/uploads/2020/05/Minutes-of-the-25th-BOD-Meeting-Videoconference.pdf> [Accessed: July 23, 2021].

³ NDB, April 2020. Available at: <https://www.ndb.int/wp-content/uploads/2021/04/Minutes-of-the-Fifth-BoG-Meeting.pdf> [Accessed: July 23, 2021].

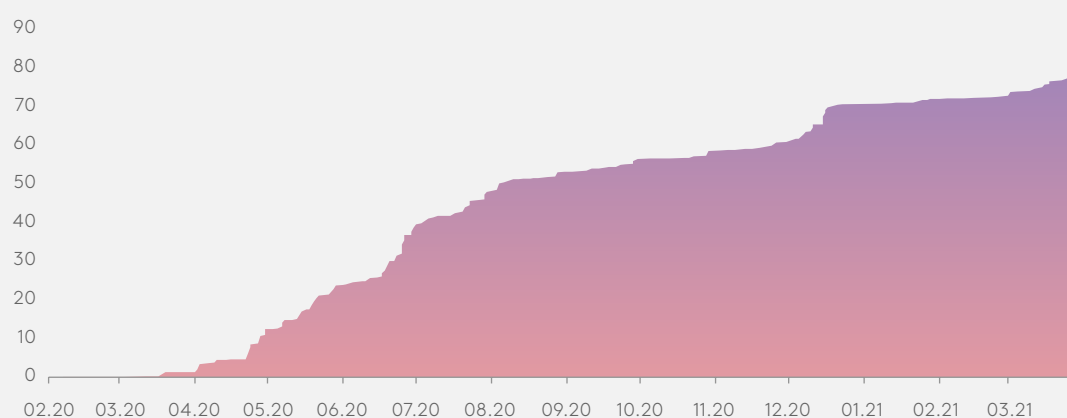
⁴ NDB Policy on Fast-Track Emergency Response to COVID-19, Available at: <https://www.ndb.int/wp-content/uploads/2020/07/Policy-on-Fast-track-Emergency-Response-to-COVID-19.pdf> [Accessed: July 23, 2021].

Table 1. The NDB's COVID-19 response

Brazil	Russia	India	China	South Africa
\$1.0 billion (07.03.20)	\$1.0 billion (25.03.21)	\$1.0 billion (11.12.2020)	RMB 7 billion (19.03.20)	\$1.0 billion (20.06.20)
\$1.0 billion (30.04.20)			RMB 7 billion (26.02.21)	\$1.0 billion (02.04.21)
\$1.0 billion (07.12.20)				

Source: NDB project database.

On balance, the above-mentioned MDBs have committed resources of around \$150 billion, of which approximately \$80 billion was disbursed as of March 2021, according to the Center of Strategic and International Studies IFI COVID response database (Figure 4). The graph shows that April–August was the period of the fastest rates of growth in MDB COVID-related programmes.

Figure 4. MDBs' Approved Amounts for COVID projects, USD billions

Source: based on CSIS IFI COVID-19 Response Tracker, CSIS Economics Program, last updated 31 March 2021. The data cover the following institutions. ADB, AIIB, WB, AfDB and NDB.

To sum up, the MDBs have been active in reacting to COVID-19 in terms of timing, volumes, and adjustment in procedures. They stepped up an early stage of the pandemic and supported their member states with significant volumes of emergency financing. The 2020 pandemic was also a period when new MDBs introduced new frameworks and tested their emergency capacities.

2.6. Bilateral financial support

Bilateral financial support can be seen as an additional source of stabilization financing. It can be provided in the form of loans, refinancing, debt forgiveness, or deferral of debt payments.

The Debt Service Suspension Initiative (DSSI) was approved by the G20 in April 2020, and has been actively supported by the IMF and the World Bank. Under the DSSI, official bilateral creditors of the G20 plus a number of other countries agreed, if requested, to suspend debt service payments from 73 low- and lower-middle-income countries. The originally agreed DSSI term was from 1 May to 31 December 2020. The initiative was extended several times and is expected to be completed by the end of 2021.

The DSSI extended a helping hand in the form of liquidity assistance and freeing up additional resources for LICs to respond to the pandemic. As of 1 June 2021, 46 eligible countries have benefitted from the initiative. In 2020, the debt service suspension provided by official bilateral creditors is estimated at \$5.7 billion (including the China Development Bank, participating as a commercial creditor).

While the DSSI has been instrumental in supporting LICs, its overall impact has remained rather limited. According to the Institute of International Finance (IIF) debt service payments that were suspended in 2020 accounted for only around 15% of eligible countries' total external public debt refinancing requirements (around \$35 billion). a similar pattern is observed for 2021–22. According to the World Bank, the external debt service in 2021 of the DSSI-eligible countries includes \$16.6 billion due to official bilateral creditors, \$14 billion to multilateral creditors, and \$14 billion to private creditors.

The fact that there has been no private sector participation in the DSSI has been a major drawback so far, which has resulted in unfair burden-sharing among creditors. DSSI implementation has also raised concerns about debt transparency, debt data consistency, and the categorization of various type of lenders. The World Bank's estimates of the amount of suspended debt have significantly exceeded the creditors' numbers.

Another important initiative that was agreed upon by the G20 in 2020 is the Common Framework for Debt Treatments Beyond the DSSI, which provides an important opportunity to address the shortcomings of the DSSI for those eligible LICs that could require further debt treatments due to unsustainable debt burdens or significant and protracted liquidity needs. According to the Common Framework, the need for debt treatment and the restructuring envelope that is required will be based on an IMF–WB Debt Sustainability Analysis (DSA) and the participating official creditors' collective assessment. All debt treatments are to be decided on a case-by-case basis by participating creditors.

The Common Framework brings in Paris Club and non-Paris Club creditors (particularly China) to put in place a coordinated approach to a wide range of potential debt treatments for the DSSI-eligible countries. It requires a debtor country to seek debt treatment on comparable terms from private creditors and calls upon MDBs to continue exploring options to help debtor countries meet their long-term financing needs. In this context, the framework can be seen as an important milestone in efforts to strengthen the international debt architecture.

3. Stabilization support in the EFSD region of operations during the COVID-19 crisis

In the EFSD's region of operations, transmission channels (regarding the economic impact of the pandemic) were broadly the same as in other regions. Though borders generally remained open for cargo transportation, travel restrictions hit the economies from two sides: revenues from tourism, and opportunities for labour migration. Adverse economic effects were exacerbated by lockdowns introduced in some EFSD member countries, which substantially affected some sub-branches of industry and services.

EFSD recipient countries were hit hard by the pandemic and faced limited financial resources (Table 2). Fiscal space constraints, low relative-to-shock FX reserves, and high debt liabilities made these countries vulnerable to external shocks and long-term risks to their macroeconomic, financial, and social stability.

Table 2. Economic indicators in EFSD recipient countries

Country	GDP growth, %		Budget balance, % of GDP	
	2019	2020	2019	2020
Armenia	7.6	-7.4	-1	-5.4
Belarus	1.2	-0.9	2.5	-1.6
Kyrgyz Republic	4.6	-8.6	-0.1	-3.3
Tajikistan	7.5	4.5	-0.6	-0.7

Source: national authorities' data.

Countries that did not introduce strict measures witnessed a milder economic downturn in 2020. However, in the case of Belarus, export opportunities were limited (mainly due to the deteriorated economic outlook in Russia), continuation of business activity resulted in increased inventories, without generating much cash inflows to producers. The Tajik economy seemed to be affected more by migration than by not introducing lockdown. Although the Tajik economy grew by 4.5% in 2020, that growth was substantially lower than the 10-year average of 7%.

EFSD recipient countries differed in their response to the COVID-19 pandemic at the national level. In Belarus and Tajikistan, strict restrictions on mobility and transport were not introduced, but their economies have been hit hard by external shocks. In turn, the Kyrgyz Republic and Armenia announced an emergency situation and introduced transport restrictions.

We now provide an analysis of the reaction of international financial institutions in the EFSD member countries, showing that multilateral, regional, and bilateral assistance through the Global Financial Safety Net has been crucial in cushioning the impact of funding shocks in Eurasia.

In 2020, there was a different FX dynamic in the EFSD countries: a decrease in international reserves in Belarus and Armenia, but opposite situation in the Kyrgyz Republic, Kazakhstan, Russian Federation, and Tajikistan (Table 3).

Table 3. FX reserves dynamics in 2019–2020 (end of period), USD billions

Country	2019	2020	For reference: Reserves (% of ARA EM Metric IMF)
Armenia	2.8	2.6	79% (100–150% suggested adequacy range)
Belarus	9.4	7.5	67% (100–150% suggested adequacy range)
Kazakhstan	29	35.6	151% (100–150% suggested adequacy range)
Kyrgyz Republic	2.4	2.8	No ARA metrics
Russian Federation	554.4	595.8	361% (100–150% suggested adequacy range)
Tajikistan	1.5	1.8	No ARA metrics

Source: national authorities' data.

In Armenia, after strong private inflows and accumulation of reserves in 2019, the pandemic weakened exports, tourism receipts, remittances, FDI, and private capital inflows. The central bank undertook few foreign exchange sales to limit excessive dram volatility around the beginning of April 2020, although since then the dram has strengthened, and the Central Bank of Armenia has been able to buy some FX. These developments and net debt service, which was particularly large in the third quarter, placed downward pressure on the dram and reduced reserves by \$234.5 million in 2020 (–8.3%).

In Belarus in 2020, there were two distinct periods in the domestic foreign exchange market, when for a short time and in large volumes, there was a net demand for foreign currency. This demand was met by the National Bank of Belarus through the sale of foreign exchange reserves. In conducting foreign exchange interventions, the National Bank did not allow an excessive depreciation of the Belarusian rouble, or an increase in macroeconomic imbalances. In 2020, the Government and the National Bank repaid \$3.9 billion of external and domestic liabilities. Against the background of the imbalance on the foreign exchange market, as well as significant payments, the Government took measures to partially refinance them. As a result, the decrease in FX reserves in 2020 amounted to \$1.9 billion (20.5%). On 1 January 2021, international reserve assets totalled \$7.5 billion.

In Kazakhstan, international reserves increased by \$6.6 billion in 2020 (22.7%) amounted to \$35.6 billion. The growth of international reserves was driven by the rising gold price.

The external position of the Kyrgyz Republic was weakened amid falling tourism receipts and lower exports. Amid the foreign economic volatility, the National Bank of the Kyrgyz Republic (NBKR) made intensive interventions in 2020 aimed at smoothing sharp fluctuations in the exchange rate. Overall,

its net sales were \$466.0 million during the year. The inflow of international assistance in the fight against the COVID-19 pandemic amounting to \$366.8 million, together with the current account surplus, contributed positively to FX reserves. The growth in FX reserves was further supported by higher gold prices and an increase in the volume of gold reserves of the NBKR. Thus, FX reserves increased by \$384 million in 2020, amounting to \$2.8 billion, which is equivalent to 7.5 months of imports, considering the significant drop of import volumes in 2020.

In the Russian Federation, international reserves increased by \$41.4 billion in 2020 (7.4%), amounting to \$595.8 billion. International reserves rose to more than 19 months of imports by end-2020, thanks to valuation changes related to higher gold prices.

In Tajikistan, despite a significant drop in foreign investment, the financial account improved due to lower accounts receivable of Tajikistan enterprises under trade credit and advances, as well as due to international donor support. The combined improvement in the current and the financial accounts resulted in a balance of payments surplus of 14.9 percent of GDP (\$873 million). As a result, FX reserves rose to \$1.8 billion in 2020, which corresponds to 7 months of imports.

BSAs between central banks provide a significant amount of liquidity, in some cases comparable to substantial stabilization financial assistance programmes. The People's Bank of China is the largest BSA partner of the countries under consideration. The amount of the agreements ranges from \$100 million to \$25 billion.

However, in the EFSD regions of operations, bilateral swap arrangements are used primarily to service foreign trade turnover, and only Belarus has active BSAs with China, totalling about \$1 billion. BSAs with Armenia, Kazakhstan, Russian the Federation, and Tajikistan have now expired (Vinokurov, Levenkov, and Vasiliev, 2020). There are no statistics on the use of these agreements, which makes it rather difficult to assess activations of this instrument. The issue of how to treat BSAs in the GFSN remains to be explored going forward.

The EFSD Council approved the provision of three financial loans of \$650 million to support government programmes in the Republic of Belarus (\$500 million), the Kyrgyz Republic (\$100 million), and the Republic of Tajikistan (\$50 million) to overcome the negative consequences of the COVID-19 pandemic on the economy, population, and financial and social sectors. Programmes include measures to support health systems, affected sectors of the economy, and vulnerable groups, and are aimed at implementing prudent and balanced macroeconomic policies. The Fund Council approved funding for all countries, but resources were provided only to the budgets of the Republic of Belarus and the Republic of Tajikistan. Due to the aggravation of the political situation in October 2020, the Kyrgyz Republic did not manage to select funds during the period of loan availability, which led to cancellation of the loan.

To strengthen the EFSD's response to COVID-19, the Fund's Council decided to conduct an extraordinary competitive selection of health projects to be funded by EFSD grants. The Fund Council approved the use of \$9 million to fund projects in Armenia, the Kyrgyz Republic, and Tajikistan to increase health systems' preparedness for the pandemic, to perform mobile diagnostics, and to detect and respond to the threats posed by the coronavirus.

The EFSD during 2020 held regular dialogues with the governments of its member states, as well as with the IMF and other donors, on macroeconomic and structural policies. The case of Tajikistan is a good example of coordinated work among donor community (Box 3).

Box 3. Budget support from IFIs to Tajikistan

At the early stages of the COVID-19 pandemic, bilateral communication of the EFSD with the IMF and other donors on a staff level substantially intensified. There was an urgent need to coordinate financial support with other donors. Regular consultations were held within the donor community, at which assessments and forecasts of the development of the macroeconomic situation in Tajikistan were discussed. A special focus was on estimations of fiscal and balance of payments gaps in the country. These assessments made it possible to enhance coordination within the donor community, including incorporation of global economic assumptions and modelling of country projections.

As a result, key development partners are supporting the Government of the Tajikistan in its COVID-19 response. Assistance to counter the pandemic was provided by the IMF (\$189.5 million), EFSD (\$50 million), and Asian Development Bank (\$120 million). The IMF partially wrote off Tajikistan's debts from CCRT funds in the amount of \$24 million.

The IMF is actively supporting countries in the Eurasian region (Table 4).

Table 4. IMF Arrangements in the EFSD Region of Operations

Approval Date	Country	Type of Request	RFI (SDR millions)	RCF (SDR millions)	Other (SDR millions)	Total (SDR millions)	Total (USD millions)	% of Quota
26.03.2020	Kyrgyz Republic	Blended RFI/RCF	59.2	29.6		88.8	120.8	50.0
06.05.2020	Republic of Tajikistan	RCF		139.2		139.2	189.5	80.0
08.05.2020	Kyrgyz Republic	Blended RFI/RCF	59.2	29.6		88.8	121.1	50.0
May–December 2020	Armenia	Withdrawals under and augmentation of the 2019 SBA			231.7	231.7	314.8	180.0

Source: IMF data (aggregate US\$ amounts are presented for illustrative purposes).

The Kyrgyz Republic was the first country in the world to receive IMF COVID-related emergency financial assistance — about \$121 million (50 percent of quota) under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). At the beginning of May, the Kyrgyz Republic received additional emergency financing from the IMF. The economic outlook has deteriorated sharply due to the global pandemic. The IMF estimated a financing gap of around \$500 million at the time of the second RCF/RFI disbursement; therefore, the IMF's total emergency financial assistance of about \$242 million (100 percent of quota) helped the authorities to close almost half of the financing gap and to cushion

the impact of the crisis. With the remaining financing gap filled by other IFIs and development partners, the country was able to maintain its international reserves at adequate levels.

On 6 May 2020, the IMF Executive Board approved Tajikistan's request for emergency financing under the RCF in the amount of about \$190 million (80 percent of quota) to help address urgent financing needs associated with the impact of the pandemic. The IMF emergency financing helped preserve fiscal space for essential COVID-19-related health and social expenditures. Prior to the COVID-19 outbreak, economic developments in Tajikistan were broadly favourable. Economic activity was strong, with growth rates at around 7.3 percent in 2017–19. The financial sector was recovering from the 2015–16 crisis. Reserves coverage under the IMF's various metrics was adequate. At the time of the RCF approval, the financing gap was estimated at \$384 million. The IMF emergency financing covered almost half of this gap, preventing a sharp drop in international reserves.

Tajikistan has also received debt service relief under the CCRT in the amount of around \$24 million so far.

Armenia has been one of the few countries with continued implementation of the UCT-quality programme with the IMF, despite the severe effects of the pandemic. Before the COVID-19 crisis, Armenia had a precautionary 36-month SBA with access to \$250 million (140 percent of quota). The arrangement was approved in May 2019 and was intended to be precautionary by providing insurance against external shocks. The impact of the COVID-19 pandemic and the tightening of global financial conditions have disrupted the favourable macroeconomic conditions in the country. Armenia requested the IMF to augment access under the 2019 SBA by 100 percent of quota (\$175 million) and to purchase available drawing rights under the SBA to address the emergency external and fiscal needs. The funding provided critical resources to cover fiscal needs by allocating about \$315 million for budget support in 2020. In May 2020 the financing gap was estimated at around \$422 million over 2020–22. Despite the difficult economic conditions that were exacerbated by the recent Nagorno-Karabakh conflict, Armenia has demonstrated important progress under the SBA, with further improvements in its policy frameworks.

Cooperation between the IMF and Armenia is a good illustration of what is feasible and desirable, in terms of providing emergency support while advancing structural reforms and strong policies (Box 4).

Box 4. The Case of Armenia

Armenia has made substantial progress in strengthening its macroeconomic performance and implementing structural reforms under the IMF-supported programmes over recent years. Implementation has been broadly strong, despite the challenging environment and external shocks.

Under the 2014–17 EFF, despite major external shocks in 2014–15 and, hence, inevitable deviations from the original performance criteria and benchmarks, the authorities and the IMF relatively quickly adjusted the programme and continued with its confident implementation, including completion of the key structural benchmarks. Before the pandemic, economic activity had been

strong, with real GDP increasing by 7.5 percent in 2017 and 5.2 percent in 2018. Fiscal consolidation had remained on track, and public debt had started to decline. Inflation was under control and the financial system remained stable.

In 2019 Armenia was well on track in implementing the new precautionary programme with the IMF. The precautionary SBA was seen as the next step in cementing Armenia’s status as the top performer in the region.

When the pandemic hit the global economy, Armenia faced multifaceted shocks that were large, diverse, and extremely uncertain in their duration and magnitude. Despite these shocks and in contrast to most other countries, the Armenian authorities and the IMF managed to adjust the programme in line with the new baseline scenario without diluting the quality of the programme. The IMF increased the country’s access to its resources and provided financial support in a frontloaded and timely manner. Despite the difficult economic conditions that were exacerbated by the recent Nagorno-Karabakh conflict, Armenia has demonstrated important progress under the current SBA, with further improvements in its policy frameworks.

In the EFSD region, the multilateral development banks work on a wide agenda. Their operations cover technical assistance, investment financing, and budget and balance of payment support. Among MDBs, we find the Asian Development Bank, the World Bank, the Asian Infrastructure Investment Bank, the New Development Bank, and the Islamic Development Bank.

The MDBs played a key role in pandemic response during the acute phase of the crisis in the region of EFSD operations (Table 5).

Table 5. MDBs’ operations in the EFSD region of operations, USD millions

Country	MDBs’ investment operations	MDBs’ budget support
Belarus	WB – 98	–
Armenia	ADB – 43.2 WB – 3	–
Kazakhstan	–	ADB – 1,000 AIIB – 750
Kyrgyz Republic	ADB – 22 WB – 142 AIIB – 50 IsDB – 15	ADB – 50
Russian Federation	AIIB – 300	NDB – 1,000
Tajikistan	ADB – 5.1 WB – 11.3 IsDB – 9.4	ADB – 120

Source: public data from respective institutions.

The MDBs reacted through budget support, grants, and private sector operations. The ADB financed budget support programmes in the Kyrgyz Republic, Tajikistan, and Kazakhstan. In the Kyrgyz Republic, the ADB approved a \$50 million budget support operation. In Tajikistan, the bank disbursed \$100 million. This is only a part of the package that was provided to the countries. Kazakhstan received \$1 billion from the COVID-19 Active Response and Expenditure Program and \$1 million of technical assistance to Solidarity Fund of Kazakhstan to complement the government's efforts in fighting the pandemic.

The AIIB co-financed the ADB COVID programme in Kazakhstan for \$750 million and supported operational continuity for the largest railway sector company in Russia with \$300 million from the AIIB's COVID-19 Crisis Recovery Facility.

The World Bank did not provide budget support to the EFSD recipient states, instead playing the role of supporting economies and people with investment projects, such as helping in detection and prevention of the COVID-19, emergency support to small and medium enterprises in Armenia, Tajikistan, and the Kyrgyz Republic. The latter is co-financed with the World Bank. The AIIB is considering a healthcare project in Belarus (€116.3 million), and approved a private and financial sector support project in the Kyrgyz Republic (\$50 million).

In the Eurasian space, borrowers are actively working with sovereign creditors on a bilateral basis for debt relief in the conditions of the negative impact of the COVID-19 pandemic on the economy. For example, Belarus has agreed with Russia to extend the period of a loan for the construction of a nuclear power plant by the end of 2022, to replace the existing "mixed" interest rate on a loan for a fixed rate of 3.3% per annum. The financial effect of the restructuring of the debt of Belarus, according to estimates by the Russian side, is comparable to the one-time forgiveness of the country's obligations in the amount of about \$600 million. The Government of the Russian Federation also approved an agreement on the provision of a loan to Belarus for \$1 billion in 2020–21 (Vinokurov and Levenkov, 2021b).

Russia allocated \$20 million to the Kyrgyz Republic to cover the budget gap⁵. In May 2021, a similar grant agreement was signed in the amount of \$10 million to cover the budget deficit.

Two countries in the region, Tajikistan and the Kyrgyz Republic, benefitted from the G20's Debt Service Suspension Initiative in 2020. According to World Bank data, potential DSSI savings for the Kyrgyz Republic could have been around \$52 million, and for Tajikistan around \$63 million. The main official bilateral creditor for both countries is China. The exact DSSI savings may be different, given possible inconsistency in the data. According to the World Bank, the Kyrgyz Republic has not requested extension of the DSSI in 2021.

All in all, countries in EFSD region of operations have drawn on almost all layers of the Global Financial Safety Net, except BSAs, to mitigate the impacts of the COVID-19 crisis (Table 6).

⁵ "Russia will allocate \$ 20 million to Kyrgyzstan" to cover the financial gap in the budget" (in Russian) <https://rus.azattyk.org/a/31024006.html> [Accessed: July 23, 2021].

Table 6. Stabilization financing in COVID-19 crisis, USD millions

Country	IMF	EFSD	MDBs	Bilateral financial support
Armenia	315	0	0	0
Belarus	0	500	0	1,000
Kazakhstan	0	0	1,750	0
Kyrgyz Republic	242	100	50	82
Russian Federation	0		1,000	0
Tajikistan	189,5	50	120	63
TOTAL	746.5	650	2,920	1,145

Source: EFSD calculations, data as of 01.06.2021.

The funds disbursed from all sources in 2020 totalled at least \$5.5 billion. Stabilization financing sources in the region are diverse, although in individual economies, they focus on one or more channels of support. Armenia received financing only from the IMF. The Kyrgyz Republic received primarily bilateral financial assistance from Russia, funds from the IMF, and MDB financing for stabilization purposes. The IMF, EFSD, and MDBs were the three most significant sources for Tajikistan. For Belarus, Russian bilateral assistance and the EFSD were the only sources of stabilization financing. In the Russian Federation and Kazakhstan, MDBs have been key players during the COVID-19 crisis.

From the institutional perspective, the IMF and EFSD play leading roles in the region as sources of stabilization financing. At the same time, it is important to note that, in addition to the EFSD and the IMF as elements of the Global Financial Safety Net, EFSD member countries actively used anti-crisis financing from MDBs and received a significant amount of bilateral support from Russia. MDBs, with their budget support programmes, complement the EFSD and IMF in the region.

4. Key trends in GFSN functioning during the COVID-19 crisis

The most effective way to support the global economies is a comprehensive response and mobilization of the resources and expertise available at all layers of the Global Financial Safety Net. The GFSN's immediate response has been broadly effective.

Since the beginning of 2021, the global economy has gradually stabilized and begun its recovery path. As discussed in the previous section, all layers of the GFSN were activated and adjusted in a timely manner. The IFIs have mobilized substantial financial resources to support countries responding to the health and economic consequences of the global pandemic.

We identify four main features of GFSN response to the COVID-19 crisis:

1	The IMF has been exceptionally quick to respond to the urgency of the situation, affirming its place at the centre of the Global Financial Safety Net.	2	Cooperation within the existing IMF-RFA network was on-going and helped create synergies when supporting member countries.
3	RFAs were only partly tapped but have also acted through precautionary arrangements, monitoring, and technical assistance.	4	Significant amounts of MDB budget support and bilateral stabilization financing demonstrate its high importance, especially for emerging economies.

(1) As highlighted in the first section, the IMF has been able to quickly adapt its policies and procedures to support the membership and mitigate the immediate impact of the pandemic on the global economy, in line with its mandate and its role in the international monetary system.

The IMF toolkit, including SBAs, the EFF, and the corresponding Extended Credit Facility (ECF) for LICs, is generally seen as adequate to support structural transformation of countries to the new post-pandemic circumstances, while providing sufficient duration and larger total amounts of assistance. At the same time, the IMF is considering a set of reforms of the PRGT, including scaling up its concessional resources.

External observers have considered the possible need for a new pandemic facility to help emerging market economies deal with the implications of the COVID-19 crisis (Fisher and Mazarei, 2020). The key idea was to adapt the IMF conditionality under its standard UCT-quality programmes to the specific characteristics of the pandemic crisis, by moderating the focus on the adjustment process. According to the IMF Independent Evaluation Office, the proposal was discussed by the IMF Executive Board, but did not command a consensus view.

Given the unprecedented uncertainty and clouds over the global outlook, one could argue that the return to the IMF UCT-quality programmes should preserve adequate flexibility in applying conditionality and be focused on short-term macro-stabilization needs. On the other hand, without necessary structural

reforms, it could be difficult to address impediments to growth and crisis legacies in a timely and comprehensive way. It seems to be critical in the recovery stage to take into account uncertainties and institutional capacity, while promoting a broader use of adverse scenarios and contingency planning in the IMF and/or RFA-supported programmes. To address concerns that have been raised about the generosity in the IMF's policy advice to spend more in response to the pandemic, more attention should be given to country-specific fiscal situations. Strengthening the cooperation and knowledge exchange between the IMF and RFAs can significantly benefit their members, as well as the GFSN as a whole.

The IMF made a new general SDR allocation in the amount of \$650 billion (around SDR 453 billion) in August. New SDRs are distributed to the IMF members in accordance with their quotas. The new SDR allocation support the global economic recovery and foster global financial stability. The allocation could help the IMF members to mitigate liquidity pressures and solvency risks and to minimize long-term economic scarring due to the pandemic. By supplementing existing reserves, new SDRs can improve confidence, contain borrowing costs, and make it possible to smooth adjustment and avoid contractionary policies.

The new SDRs can also be used by advanced economies and other countries with strong external positions to channel them to countries in need. One of the existing ways for reallocating SDRs is to provide financing to the PRGT. Total new PRGT loan resources mobilized since the start of the crisis amount to about \$24 billion, of which about \$15 billion has been provided by creditors in SDRs. There have been also many calls for a wider and more ambitious reallocation of SDRs, including the creation of new trust funds at the IMF for middle income countries, the use of SDRs for green and global health initiatives, the use of SDRs for supporting debt restructuring, etc. The new SDR-rechannelling initiatives are expected to be discussed in the IMF during 2021. One of the key proposals is to create a new trust fund that can be focused on facilitating longer-term structural transformation reforms in the IMF's membership.

The EFSD countries of operations receive new SDRs that are translated into direct increase of their international reserves, as follows (Table 7):

Table 7. New SDR allocation in the EFSD region of operations, SDRs millions

Country	New SDR allocation (2021)	Percent of international reserves (as of 01.07.2021)
Armenia	123.4 (about \$175 million)	5.6
Belarus	653.2 (about \$927 million)	12.5
Republic of Kazakhstan	1,110.3 (about \$1575 million)	4.5
Kyrgyz Republic	170.2 (about \$241 million)	9.1
Russian Federation	12,367.6 (about \$17 543 million)	3
Tajikistan	166.8 (about \$237 million)	18.2
TOTAL	14,591.5 (about US\$20 698 million)	–
including for EFSD recipient states	1,113.6 (about \$1580 million)	10.9

Source: based on IMF data. Currency units per SDR as of 23 August 2021.

The IMF's financial assistance can be expected to increase further based on past crisis experience. For example, in 2008–13, the general size of IMF financial support amounted to about \$400 billion.

(2) Cooperation efforts within the existing IMF-RFA network mitigated the impact of the pandemic on the global economy and made a positive contribution to supporting the economies. Multiple exchanges with the IMF and other development partners allowed effective coordination and timely response.

Over 2020, RFAs have been in close contact with the IMF to ensure an efficient exchange of information. At the institutional level, there was an exchange on institutional and economic developments, including the heads of institutions' videoconference on 21 April 2020. The IMF also organized a seminar for the RFA technical staff in June 2020 on new IMF facilities, as part of further development of a comprehensive dialogue between the RFAs and the IMF. The IMF elaborated on measures taken to assist shareholder countries in countering the pandemic and its consequences; on the available tools for emergency response and the relationship of emergency measures to "traditional" IMF programmes; as well as on a new tool, the Short-Term Liquidity Line. In June 2020, the chief economists of the RFAs and the IMF met at the first virtual round table, where they exchanged views on the macroeconomic situation in the global economy. On 4 December 2020, ESM and EFSD Chief Economists, along with EBRD and AIIB Chief Economists, participated in the introductory economic panel of the First Eurasian Congress.

The EFSD increased the frequency of its consultations, which was in line with the fast-evolving economic conjuncture and the need to coordinate financial support with other donors (Box 5).

Box 5. Interaction with EFSD recipient countries and the donor community

During 2020, more than 50 meetings were held (in a virtual format) with the authorities of the EFSD member states at the working and high levels. These meetings discussed project activities of the EFSD, programme assistance and budget support, as well as the socio-economic situation in the countries participating in the Fund related to the negative impact of the COVID-19 pandemic.

In order to improve coordination of activities in recipient countries with development partners, regular consultations were held with the donor community and the IMF Article IV Mission, at which assessments and forecasts of the development of the macroeconomic situation in the recipient countries of the EFSD were discussed. A special focus was on estimations of fiscal and balance of payments gaps in the countries. These assessments made it possible to enhance coordination within the donor community, including incorporation of global economic assumptions and modelling of country projections. In 2020, especially in the first half of the year, the intensity of interaction with the donor community significantly exceeded that of the previous reporting period. For the first six months of 2020, the EFSD held more than 80 meetings with development partners; about 50 took place in the second half of 2020.

(3) Before the pandemic, the GFSN experienced a rapid growth of regional financing arrangements, which hold large and growing financial resources. This source of financing has appeared to be broadly untapped during the COVID-19 crisis. This could be explained by the fact that the unprecedented

support packages around the world have mitigated the need for RFAs to step in more actively, although they have been seen to stand ready to assist their members. For example, in Europe, during the pandemic a member state could benefit from very affordable borrowing rates that are comparable to ESM financing but not conditioned upon any programme. The European Union has also suggested other public sources of financing of recovery, such as the €672.5 billion Recovery and Resilience facility, which includes grants that account for 46 percent of the mechanism. In the FLAR region, the IMF and MDBs were active supporters during the COVID crisis, with \$27 billion and \$4.5 billion approved, respectively. The CMIM and BRICS CRA are performing a signalling function and are equipped to provide financing when countries experience significant pressures on their international reserves.

One may suggest that the RFAs are not intended to act as the first line of defence in case of sudden shocks; moreover, they were not designed to address humanitarian and natural disasters. In most cases, the RFAs' instruments are targeted at ex-post conditionality.

There are other challenges associated with the RFAs that may remain in place in some cases: 1) their adequacy in the event of simultaneous shocks affecting the whole region; 2) their shortage of expertise and institutional capacity needed for surveillance and programme design and monitoring; and 3) complexities with respect to imposing programme conditionality. 4) potential stigma effect on market sentiment from the viewpoint of policymakers. The last issue should be addressed with well communicated precautionary and preventive instruments and approaches.

At this stage, it is not clear whether the RFAs are prepared to provide necessary liquidity without reliance on adjustment programmes and conditionality. If they are not, then the RFAs either should build up their own capacity or coordinate their activities with the IMF. Although significant improvements in coordination between the IMF and the RFAs have been made, questions remain about the proper rules guiding access to financing, about sharing data and information, about the possibility of joint surveillance missions and provision of technical assistance. Moreover, there have been very few cases of testing such coordination in practice.

Despite of the indicated above challenges, for the RFAs it might be worth exploring and quantifying how the availability and adequacy of the financial safety net positively impacts market sentiments and increases market confidence.

(4) The rapid response and considerable size of the financial resources allocated by MDBs in 2020 demonstrates the importance of articulating their place in the GFSN. We observed that the MDBs notably supported governments in responding to the crisis. For example, the level of MDBs' support in EFSD recipient states (Armenia, Belarus, Kyrgyzstan, Tajikistan) for budget support operations is estimated at 22.7% of that provided by the IMF. At the same time, if we include activities in Russia and Kazakhstan, the MDBs take a lead by the volumes of support.

MDBs have historically played a significant role in addressing EFSD recipient countries' main regional development challenges, whether social or those related to infrastructure, integration, or climate change. Beyond this structural support, when a crisis hits the region, client countries appeal to MDBs for resources and advice to mitigate the negative shocks' immediate effects, shorten the period of

decline, and strengthen the recovery phase. In comparison to EFSD-approved financing, the MDBs' budget support is even bigger for Tajikistan.

For the period from 2009 to 2019, the funds provided by the MDBs versus the IMF and EFSD amounted to 20% for the EFSD recipient countries (Vinokurov, Levenkov, and Vasiliev, 2020). Looking at the COVID-19 crisis, the proportion was around 12%. This number doesn't take into account financing at the recovery stage or investment loans, which can be also added to the MDBs' contribution, in which case the amount could be estimated at around 21%. These estimates indicate that MDBs remain a significant contributor to emergency financing in the region (Table 8).

Table 8. Approved budget financing in the EFSD region for COVID-19 support, USD millions

Country	IMF	WB, ADB, AIIB	EFSD	MDB to IMF+EFSD ratio
Armenia	315	0	0	0
Belarus	0	–	500	0
Kazakhstan	0	1,750	0	100
Kyrgyz Republic	242	50	100	14,6
Russian Federation	0	1,000	0	100
Tajikistan	189,5	120	50	50,1
TOTAL	746,5	2,920	650	

Note: The AIIB COVID emergency project for €116.27 million in a "proposed" status was not included in this table.

Source: authors' calculations based on IFIs' public data till 1 June 2021.

MDBs have played a significant role in addressing the challenges facing EFSD countries. However, the country ownership and the reform measures in the MDB's policy-based loans are of great importance. It is primarily for budget support, but the country's ownership and strong reforms to enhance the response mechanisms and medium-term economic efficiency may also be effective for the economy over the post-crisis period.

More globally, the MDBs contributed with much more impressive assistance in the form of counter-cyclical support. For instance, the ADB approved \$1.08 billion in a sovereign loan in Kazakhstan under the ADB's COVID-19 Active Response and Expenditure Support (CARES) Program, while the IMF had not intervened in this country. India has benefitted from a \$1.51 billion loan to assist in financing its response to the pandemic, with the IMF not being financially involved. The New Development Bank — another newcomer to development finance — approved budget support of \$1 billion for the COVID-19 Emergency Program Loan for Supporting Russia's Healthcare Response, as well as funds for the other four founding members of the NDB.

5. Key challenges ahead and policy implications

5.1. Shift in response to a more structured approach

Amid the unprecedented country-level policy actions, the mobilization of some GFSN layers has been limited. For example, the RFAs were broadly untapped, despite the unprecedented global recession. The BSAs remain generally limited to advanced economies and a narrow subset of emerging market economies. A new IMF tool, the Short-Term Liquidity Line (SLL), which was intended to provide swap-like support, has not been used since its approval, suggesting a need for modifications in terms of access, eligibility criteria, etc.

As the global recovery progresses, the GFSN is expected to gradually shift to supporting structural transformation of countries to the new post-pandemic circumstances, including restoring policy space, addressing large financing needs, and reducing debt vulnerabilities. This transition from the immediate response to a more structured approach will be challenging, given high uncertainty about the global outlook and the pandemic path, limited policy space, higher liquidity and solvency risks, and the remaining gaps and new developments in the GFSN.

The post-pandemic recovery is also expected to accelerate transformational changes in the global economy. Trends in demographics, inequality, socio-political developments, and climate change are accelerating and impacting macroeconomic stability. Addressing climate change is now a key priority on the global agenda. The GFSN tools should evolve to address the growing challenges in the fast-changing world.

The medium-term GFSN response may require higher levels of financing to help countries recover from the pandemic and achieve sustainable and inclusive growth, including an increase in concessional financing, as well as additional instruments and changes in the IFIs' toolkits. Greater coordination between the GFSN layers is also needed to maximize the impact and address remaining shortcomings. In this paper, we specifically focus on the growing role of MDBs in providing budget support loans and the need to better articulate their place in the GFSN. The IMF's recent ambitious turn to the new priorities, including climate change, digitalization, and inequality, is expected to be gradually embedded in the IMF core activities: surveillance, lending, and capacity development. The work on these issues could lead to risks of mandate duplication.

The experience of the EFSD-supported programmes reveals that a staged approach to programme structures is warranted. In the first stage, the urgent needs generated by sudden shocks could be buffered with an adequate but limited volume of EFSD resources. At this stage, a country may request funds against commitments to implement policies that will strengthen macroeconomic stability and address urgent needs of the government, citizens, and business related to the underlying shock. As soon as the situation is stabilized, if further structural adjustment is required a country may follow up with a request for EFSD financing for a comprehensive adjustment programme (second stage of response). This staged approach balances the need to respond swiftly to members' urgent needs and to assist member states in balancing and strengthening long-term foundations of economic growth. This approach was also inspired by the IMF toolkit.

The flexibility of the EFSD toolkit requires more formal guidance and focus on how to shape and position a programme. This will help to set clearer expectations of a potential lender for future programmes, especially when transition from emergency to regular programmes is needed.

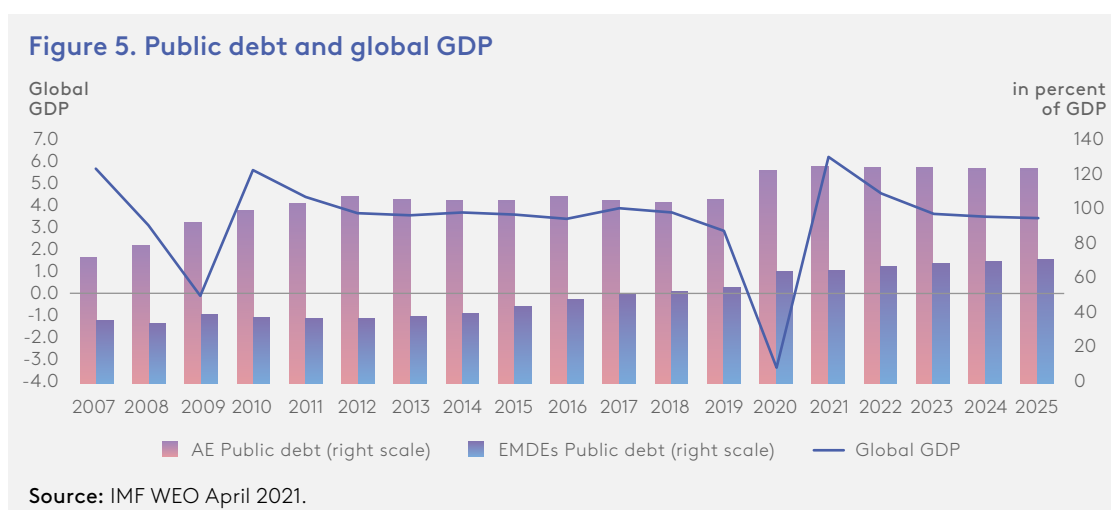
Supporting countries in natural disasters and climate change could be a new objective of EFSD work. Before the COVID crisis, the EFSD had a single case of supporting a government in mitigating the impacts of natural disasters: the first EFSD-financed programme in Tajikistan in 2010. The programme was agreed upon in response to a natural disaster as well as to the economic consequences of the Global Financial Crisis. The EFSD's concessional loan was disbursed in a single tranche to support health, education, and social protection. The loan supported a "hybrid" policy matrix, which included both backing of social outlays for emergency and a list of institutional measures.

Taking into account that the region of EFSD operations has significant exposure to natural disasters and considering the 2020 emergency response, the EFSD may assess how the toolkit may be adjusted to better address natural disasters, epidemics, and similar events, and to distinguish them from structural adjustment financing. Finally, in terms of toolkits, there can include a variety of toolkits including more preventive instruments to minimize the stigma effect.

5.2. Debt concerns

Ultra-easy economic policies, although they cushioned the pandemic's blow, spurred excessive risk taking on the global financial markets and private and public debt build-up globally. The poorest and most vulnerable were disproportionately hit, exacerbating debt vulnerabilities, poverty, and inequality in most countries.

In the pandemic's aftermath, many countries will have to deal with high public and private debt burdens (Figure 5).



Many countries faced the pandemic crisis with already high debt levels. According to the IMF's Global Debt Database, "global debt — public plus private — reached \$197 trillion in 2019, up by \$9 trillion from the previous year. The 2019 global public debt surpassed its 2007 level by 23 percentage points of GDP".

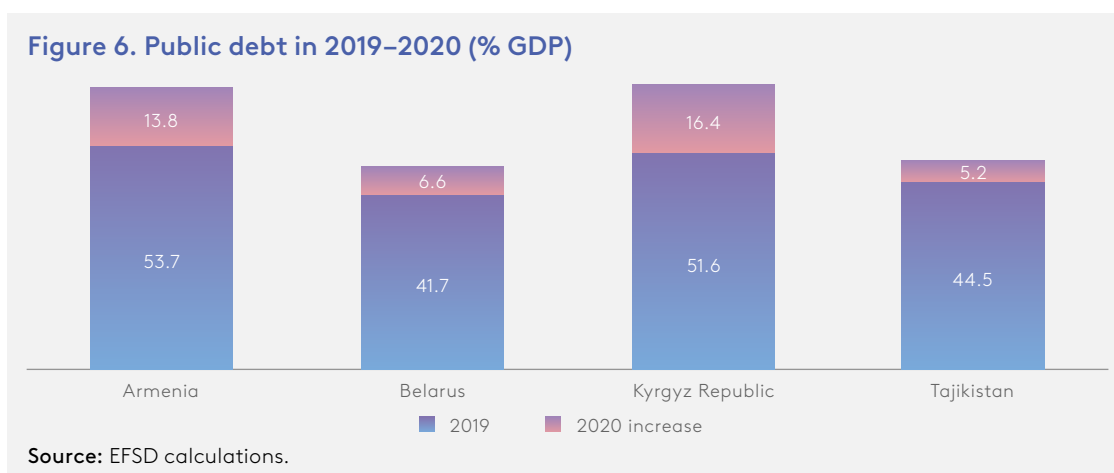
LICs have experienced a sharp increase in public debt. Even before the pandemic, around half of LICs were classified by the IMF and the World Bank as either in debt distress or at high risk of it. Since the beginning of the pandemic, the debt situation has further deteriorated.

Nevertheless, the risks of a systemic debt crisis have not materialized, at least so far. The recent restructuring cases involved countries that were already in distress or at the edge of it before the pandemic. Many countries continue to benefit from lower borrowing costs, mostly because of still low interest rates and the continued appetite of global investors. The reason why a wider crisis was avoided so far is probably some combination of the IFIs' ample financing, the G20 debt initiatives, and pre-existing fiscal and external buffers, while an extraordinarily accommodative stance underpinned easy financial conditions.

The key concern now is that domestic buffers and financing options may be running out, while external financing conditions could tighten abruptly. For emerging market economies and LICs, one of the key risks in the medium term is associated with large gross financing needs and access to financing. According to the IMF, emerging market and developing economies are expected to face gross external financing needs of over \$3 trillion in 2021–25. The IMF also projected that LICs need \$450–550 billion of additional spending in 2021–25 to return to the pre-pandemic convergence path, increase their COVID-19-related spending, and build adequate financial buffers. Moreover, substantial additional resources would be needed to meet the sustainable development goals by 2030.

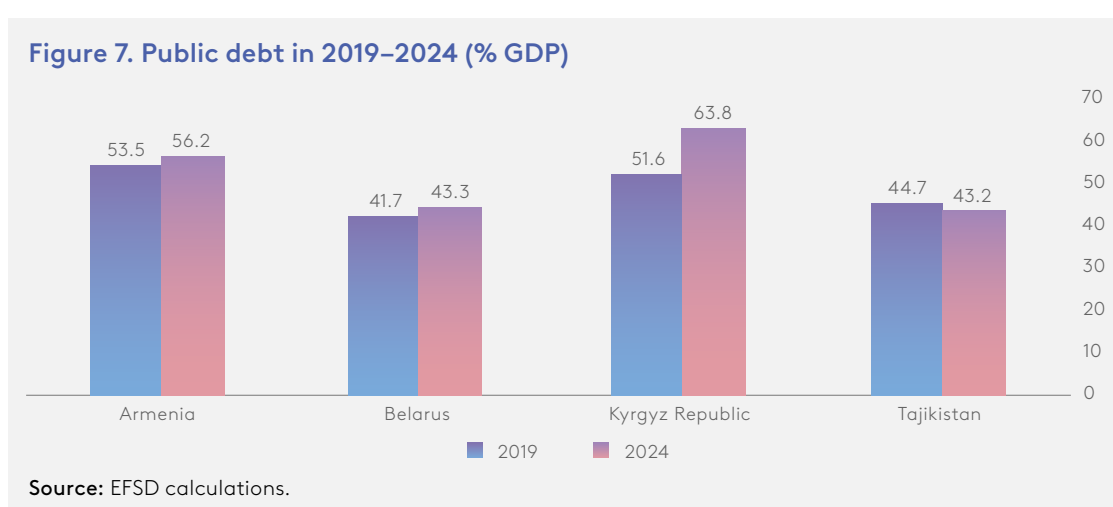
The COVID-19 crisis has also exacerbated concerns about the adequacy of existing approaches to sovereign debt restructuring, in particular in case of a systemic debt crisis. The IMF has embarked on an important agenda to examine the gaps in the contractual approach and to identify policy options for further improvements in the international debt architecture. The expansion of the creditor base, including by the newly created multilateral institutions, requires further steps to promote coordination on the global level. The complex issue of the IFI preferred creditor status may require further research. The Common Framework for Debt Treatments beyond the DSSI also remains to be tested, in terms of creditor coordination and private sector involvement.

In EFSD recipient countries, the level of public debt relative to GDP increased by 10.6 p.p. in 2020 on average across the recipient countries (Figure 6).



Higher budget deficits and slower economic growth are key factors in contributing to rising public debt levels. The main risks remain the high share of foreign currency borrowing and the likelihood of a slower economic recovery. These new levels of public debt are expected to remain affordable for these countries; however, they will be compounded by a significant increase in financing needs.

In EFSD recipient countries in the medium term, debt servicing may significantly absorb countries' budget revenues, which could be spent for countries' development purposes. In line with the budget stance, the exchange rate remains an important factor, determining the dynamics of debt stocks and flows. A significant currency depreciation, given countries' dependence on forex-denominated loans, may significantly increase the burden of debt servicing. In the medium term, the debt burden is expected to decrease, but by the end of 2024 it will remain above the pre-crisis level (Figure 7).



Weak economic growth in Armenia, not exceeding 2%, and the continuing high budget deficit will lead to an increase in the public debt in Armenia to 65.7% of GDP in 2021. However, financial needs will remain within 10% of GDP. In the medium term, as economic activity grows, the debt-to-GDP ratio will begin to decline. By the end of 2024, the debt-to-GDP ratio will be 56.2% of GDP.

In 2021–2024, amid projected weak economic activity, the debt-to-GDP ratio in Belarus will remain around 50%. In the case of a stable economic recovery with average annual GDP growth in 2021–2024 of about 1%, the debt-to-GDP ratio of Belarus will decrease annually by an average of 0.6 p.p. By the end of 2024, the debt-to-GDP ratio will be 43.3% of GDP, still above the pre-crisis level. Along with the growing debt burden, the Belarusian economy may be under pressure from increasing debt service costs. In addition to significant upcoming payments, the debt situation in Belarus is worsened by the growth of quasi-fiscal obligations. The active participation of the state in the economy has led to a high level of state guarantees.

In the medium term, as the economy of the Kyrgyz Republic recovers and the exchange rate stabilizes, a gradual decrease in the debt burden is forecasted. The debt-to-GDP ratio will begin to decline annually by almost 1.7 p.p. By the end of 2024, the debt of the Kyrgyz Republic will be less than 64% of GDP, still above the pre-crisis level (51.6% in 2019). By the end of 2024, financial needs will decrease

to 6.8% of GDP. Moderate fiscal consolidation, contributing to reduction of the budget deficit but not limiting the dynamics of potential growth, may become an important factor in improving the country's debt sustainability.

In the medium term, a further systematic decrease in the debt-to-GDP ratio of Tajikistan is expected. This will be facilitated by the preferential terms of borrowing in 2020, as well as a restrained policy of government spending. By the end of 2024, the level of government obligations may return to the region of 43–44% of GDP.

5.3. Role of MDBs in the GFSN

Our analysis confirms that MDBs played a significant role in supporting member states during the COVID-19 crisis. Our research also shows that the multilateral development banks perform functions that are similar to the GFSN agenda. MDBs have also strengthened the emergency (crisis) toolkit for faster crisis response. Therefore, we believe that the institutions could be assessed for their systemic effect on the performance and effectiveness of the Global Financial Safety Net.

An enlarged interpretation of the GFSN — beyond its four traditional elements — has several advantages and at the same time introduces new considerations. In short-term, for recipient countries, the balance of pluses and minuses is unequivocally positive. Recipient countries have greater opportunities for stabilization financing.

When we think of a larger time horizon and refer to longer-term mandate of the IFIs that provide stabilization support, the outcomes of the assessment are less evident (Table 8).

Table 8. Balance of advantages and risks of MDBs' involvement in the crisis response agenda in the form of budget support and balance of payment support

Opportunities	New considerations
Larger access to a more variety of stabilization resources	Watering down the IMF/RFA mandate and role
The role and weight of emerging economies in stabilization agenda may grow	Diversion of MDBs' resources from the core development agenda and activities
Solution to the problem of uneven coverage	Risk of facility shopping/loss of momentum for structural adjustments

First, the pool of available resources for stabilization financing effectively becomes larger. This stresses the issue of coordination among the IMF, RFAs, and MDBs. Coordination with the IMF and other elements is framed by the IMF–RFA and IMF–MDB principles. According to a broadly supported approach, the IMF is at the centre of the GFSN. In relation to IMF–MDB coordination, there are the G20 principles (G20, 2017). IMF–MDB principles state that MDBs encourage countries experiencing a balance of payments crisis to pursue the IMF-supported programme. This suggests that the IMF should be

the lead institution for BoP support in crisis times. At the same time, MDBs provide emergency and countercyclical budget support, which may also address BoP crisis needs. For example, EFSD countries that have a large portion of FX debt may use MDBs' budget support that will address BoP issues. This situation is especially relevant for LICs, for which coordination of the macroeconomic framework and policy adjustment is important; otherwise, the effectiveness of MDBs' budget support for stabilization purposes may fall short for longer term effects and sustainability of program.

From that we may conclude that the IMF and MDBs must strengthen their coordination framework to make their interventions more in line with the core mandates. Theoretically, this may be achieved by either agreeing that institutions will rely on each others' expertise in confirming policy measures for their respective programmes, or by revising the MDB toolkit and crisis response strategies. In respect to other elements of the GFSN, we advise that RFAs should be considered together with the IMF when determining the distribution of roles for crisis support.

Second, the role and weight of emerging economies in this GFSN configuration will grow due to the development of the regional level of the GFSN. Many emerging economies now have more choices for financing, which can create pluralism of approaches and methods.

Third, expansion of the GFSN concept provides a solution to the problem of uneven coverage. One of the key problems with the safety net is that coverage by regional financing arrangements is very incomplete.

Along with the benefits, there come new considerations.

The mandates of the IMF and RFAs, on the one hand, and those of MDBs may overlap. De jure the mandates are not overlapped according to the charters of the IMF and MDBs, but de facto on practice we see such cases. Also, MDBs are moving away from their core tasks (development finance, poverty alleviation, infrastructure financing). This diversion of MDBs resources may effectively reduce the scope of Sustainable Development Goals (SDGs) financing. Meanwhile, we should admit that the MDBs provide indispensable support for development. Moreover, when looking at their portfolios, the development finance for SDGs is the largest part of their project activities.

Finally, the probability of a successful facility shopping on the side of recipient countries becomes higher. All in all, while the role of policy based lending in the GFSN architecture assumes significance for preserving financial stability, they need to be appropriately weighed in the light of IMF programs and/ or other elements of the GFSN, especially where debt is high, and financing is tight. We should not undermine the importance of fundamental reforms to build a more resilient world economy.

Building on the above argument, it is important to note that country ownership and strong policy measures supported by MDB financing is in the core of sustainability and effectiveness of a program. This is also relevant policies and reforms during the recovery period.

A potential solution to these challenges might be along the following lines. The IMF and RFAs efforts to support macroeconomic stability should be effectively and in a coordinated manner complemented

by MDBs budget support operations during crises. While the IMF and RFA finance BoP and budget gaps, MDBs might add value more explicitly by conducting development policy operations (DPOs) etc., supporting long-term development goals. Their operations, particularly at the times of economic and financial crises, require close coordination between the IMF, RFA and MDBs. This concept would ideally require articulation at the level of G-20.

From the shareholders' view, a member state would normally shape its interest in participation in an IFI as well as in any other form of international support for a development agenda. The member would then consider allocating its limited resources to this or that IFI based on its mandate and perceived efficiency. When IFIs drift from their core mandates, and the mandate becomes blurred, it may be difficult to come to an optimal decision on the allocation of resources. It may then negatively impact GFSN as a system.

The national governments and IFIs might find it useful to conduct an assessment on the raised issues within G-20 or other high-level framework. In this regard, we welcome the G20 recommendations for the Use of Policy-Based Lending that were endorsed at the Third G20 Finance Ministers and Central Bank Governors meeting in July 2021, as an update to the G20 Principles for Effective Coordination between the IMF and MDBs in Case of Countries Requesting Financing while Facing Macroeconomic Vulnerabilities (G20, 2021). The G20 update on principles is an important methodological step forward. The G20 clarified the division of roles for the IMF and MDBs and areas of collaboration. If the updated principles are translated into practice, they may assist in strengthening the frameworks of cooperation between donors and governments, and ensure continuity for the dialogue on programme measures. Further practical steps and monitoring on the G20 level are needed to ensure implementation of the principles.

Conclusion

The global pandemic was not on the radar screen of the major IFIs. Reassessment of the global outlook has been a challenging exercise. Uncertainty about the path and impact of the pandemic poses risks for the IFIs' ability to accurately gauge the state of the global economy and calibrate country-specific policy advice.

The COVID-19 pandemic highlighted the dire need for better global risk management. Given the magnitude of this crisis, the most effective way to support the global economy is through an integrated response and mobilisation of resources and expertise at all levels of the Global Financial Safety Net. This is what we see. Our analysis of reactions of various anti-crisis elements of the world financial architecture to the spread of the coronavirus suggests the high importance of GFSN functioning.

This study analysed the scope of GFSN response to the COVID-19 crisis globally and in the EFSD region — Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Russian Federation and Tajikistan — up to 1 June 2021. The authors provide an analysis of the reaction of international financial institutions to the current economic crisis evoked by the spread of COVID-19. Within the observed period of time, the EFSD borrowing countries used the entire available stabilization toolkit.

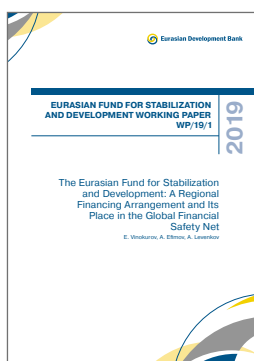
In our study we identify four main features of GFSN response to the COVID-19 crisis: IMF reasserting its place "at the centre of the global financial safety net"; cooperation within the existing IMF-RFA network was very important and useful for both sides; RFAs were largely untapped; significant amounts of MDB budget support and bilateral stabilization financing demonstrate its high importance.

With new features, we see new challenges to the GFSN functioning. First, as the global recovery progresses, the GFSN is expected to gradually shift to supporting structural transformation of countries to the new post-pandemic circumstances, including restoring policy space, addressing large financing needs, and reducing debt vulnerabilities. Second, in the pandemic's aftermath, many countries will have to deal with high public and private debt burdens. Third, MDBs' inclusion in the GFSN has several advantages and at the same time introduces new risks.

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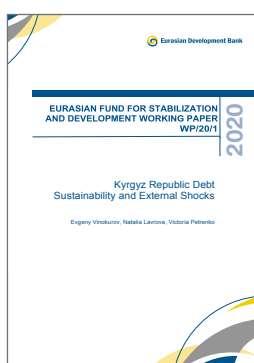
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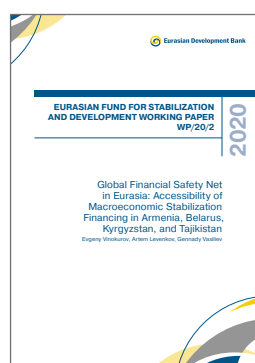
Working Paper WP/19/1 (RU/EN)
The Eurasian Fund for Stabilization and Development: A Regional Financing Arrangement and Its Place in the Global Financial Safety Net
 The objective of the first working paper is to bridge the gap in understanding the dynamics of EFSD development and its place in the Global Financial Safety Net (GFSN) and the region’s financial architecture.



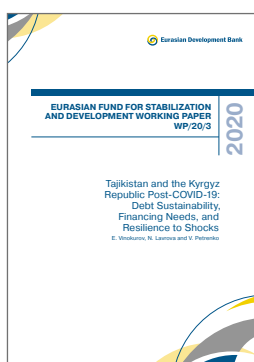
Working Paper WP/19/1 (EN)
Achieving Stabilization and Development Objectives in a Single Agenda: The Experience of the Eurasian Fund for Stabilization and Development
 This working paper analyzes the experience of the EFSD, which suggests that in the context of low-income countries, the RFA’s stabilization mandate may benefit from complementing it with developmental agenda.



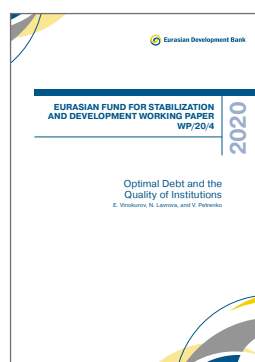
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Kyrgyz Republic Debt Sustainability and External Shocks
 The document examines the resilience of the Kyrgyz debt under three stress-scenarios: (1) a global recession, (2) a financial crisis, and (3) the combination of a global recession and a financial crisis.



Working Paper WP/20/2 (RU/EN)
Global Financial Safety Net in Eurasia: Accessibility of Macroeconomic Stabilization Financing in Armenia, Belarus, Kyrgyzstan, and Tajikistan
 The document estimates the availability of stabilization financing for Armenia, Belarus, the Kyrgyz Republic, and Tajikistan based on three approaches.



Working Paper WP/20/3 (RU/EN)
Tajikistan and the Kyrgyz Republic Post-COVID-19: Debt Sustainability, Financing Needs, and Resilience to Shocks
 The COVID-19 outbreak has revealed the sensitivity of economies and their debt positions to a wide range of disruptions.



Working Paper WP/20/4 (RU/EN)
Optimal Debt and the Quality of Institutions
 Amid the COVID-19 pandemic policymakers now face the dilemma of whether to stimulate infrastructure development by raising debt, which may reduce future flexibility, or to strengthen their fiscal positions.



Eurasian Development Bank

Evgeny Vinokurov, Artem Levenkov, Gennady Vasiliev,
Sergey Potapov

Evolution of Tools and Approaches within the Enlarged Global
Financial Safety Net in Response to the COVID-19 Crisis

The **Eurasian Fund for Stabilization and Development (EFSD)** amounting to US\$8.513 billion was established on June 9th, 2009 by the governments of the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan. The objectives of the EFSD are to assist its member countries in overcoming the consequences of the global financial crisis, ensure their economic and financial stability, and foster integration in the region. The EFSD member countries signed the Fund Management Agreement with Eurasian Development Bank giving it the role of the EFSD Resources Manager. More information about the EFSD is available at: <https://efsd.eabr.org/en/>

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