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Global Financial Safety Net in Eurasia: Accessibility of Macroeconomic Stabilization Financing in Armenia, Belarus, Kyrgyzstan, and Tajikistan

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Key words: Global Financial Safety Net, financial crisis, regional financing arrangement, international reserves, bilateral swap arrangements, IMF, macroeconomic stability, multilateral development banks, bilateral financial support, Armenia, Belarus, Kyrgyzstan, Tajikistan, budget support, balance of payments' support.

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This Working Paper has been prepared before COVID-19 became a global pandemic and led to drastic negative economic consequences. It is based on the 2009–2019 data. Therefore, the Working Paper does not comprehensively elaborate on COVID-19 response from the GFSN institutions and other donors. The EFSD staff will assess the implications of the pandemic in its subsequent publications.

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The conclusions and interpretation of the facts in the Working Paper do not necessarily reflect the official position of the EDB, the EFSD Expert Council, the EFSD Council, or the EFSD member states.

TABLE OF CONTENTS

ABBREVIATIONS

ADB – Asian Development Bank
AfDB – African Development Bank
AIIB – Asian Infrastructure Investment Bank
AMF – Arab Monetary Fund
AMRO – ASEAN+3 Macroeconomic Research Office
ASEAN – Association of Southeast Asian Nations
BSA – Bilateral swap arrangement
BRICS CRA – BRICS Contingent Reserve Arrangement
CCRT– Catastrophe Containment and Relief Trust (IMF)
CMIM – Chiang Mai Initiative Multilateralization
EAEU – Eurasian Economic Union
ECB – European Central Bank
ECF – Extended Credit Facility
EDB – Eurasian Development Bank
EFF – Extended Fund Facility
EFSD – Eurasian Fund for Stabilization and Development
ESF – Exogenous Shocks Facility
ESM – European Stabilization Mechanism
FLAR – Latin American Reserve Fund (Fondo Latinoamericano de Reservas)
GRA – General Resources Account
G-20 – Group of Twenty (Group of 20)
GFSN – Global Financial Safety Net
HPP – Hydropower Plant
IADB – Inter-American Development Bank
IFI – International Financial Institution
IMF – International Monetary Fund
KR – Kyrgyz Republic
MDB – multilateral development bank
PBL – Policy-Based Lending
PfR – Program-for-Results
PRGT – Poverty Reduction and Growth Trust (IMF)
RA – Republic of Armenia
RB – Republic of Belarus
RFI – Rapid Financing Instrument
RCF – Rapid Credit Facility
RF – Russian Federation
RFA – Regional Financing Arrangement
RK – Republic of Kazakhstan
RT – Republic of Tajikistan
SBA – Stand-by Arrangement
WB – World Bank

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EXECUTIVE SUMMARY

To what extent can the Global Financial Safety Net and individual countries withstand various economic shocks? What are the available capacity and relevant sources of stabilization financing? Is this capacity enough? This working paper provides estimates for the availability of stabilization financing for Armenia, Belarus, the Kyrgyz Republic and Tajikistan (four EFSD borrowing states).

The Global Financial Safety Net has grown significantly over the past decade, both in terms of its size and composition and the level of coordination among its institutions. It comprises international reserves (FX reserves), bilateral swap arrangements (BSAs) between central banks, regional financing arrangements, and the IMF. These stabilization financing sources have their own distinctive features, advantages and disadvantages. In addition to the above sources, **we also distinguish policy-based lending by multilateral development banks and bilateral financial support as two additional important sources of stabilization financing**. These liquidity sources create additional means for Armenia, Belarus, the Kyrgyz Republic and Tajikistan to withstand economic shocks.

From 2009 to 2019, Armenia, Belarus, Kyrgyzstan and Tajikistan used all the above-mentioned stabilization-financing instruments. The use of stabilization financing sources has been cyclical and linked to economic crises. Over the decade, the countries were experiencing the consequences of the 2008–2009 global financial crisis, as well as the end-of-2014 external economic shock and the Russian ruble depreciation. The developed multi-layer financial support system has helped to mitigate the impact of these shocks.

Analysis of the episodes of reduction in reserves as well as year-over-year changes of reserves reveal two troughs that coincide with the global and regional crises, i.e., 2009–2010 and 2014–2015. The sharpest decline in FX reserves was typical for the end of 2014 through the beginning of 2015, when the central banks in the region intervened to support the exchange rate amid external economic shock and the Russian ruble devaluation. Later, all the countries made exchange rate adjustments and tightened their monetary and fiscal policies to halt the reduction of FX reserves.

BSAs between central banks provide a significant amount of liquidity, in some cases comparable to substantial stabilization financial assistance programs. **However, in Armenia, Belarus, the Kyrgyz Republic and Tajikistan, bilateral swap arrangements are used primarily to service foreign trade turnover.** The People's Bank of China is the largest BSA partner of the countries under consideration. The amount of the agreements ranges from $100 mln to $4 bln. However, there are no statistics on the use of these agreements, which makes it rather difficult to assess the stabilization capacity of this instrument. The issue of how to treat BSAs in the GFSN remains to be explored going forward.

The IMF and the EFSD play a leading role in the region as sources of stabilization financing. These institutions provided about US $10 bln or $^2/_3$ of the financial support to these countries from 2009 to 2019.

The policy-based lending of multilateral development banks is a significant additional or alternative channel of stabilization support, both in terms of financing and the impact on the scope and speed of reforms. Although stabilization is not the core function of multilateral development banks, since economic shocks may significantly affect the efficiency and effectiveness of development policies, maintaining macroeconomic stability is nevertheless in the focus of their work. Given the increasing role of MDBs, better coordination between the IMF, the EFSD, and MDBs would be beneficial for the efficiency of stabilization support provided to the region.

Within intergovernmental bilateral financing, stabilization financing coming from the Russian Federation, the largest economy and the largest bilateral donor in the region, is paramount. Bilateral financing is comparable to the support of the IMF or the EFSD. It can be provided in the form of loans, debt relief or non-repayable financial assistance (grants), which help mitigate the budgetary and debt vulnerability of the countries.

The diversity of stabilization financing brings a number of benefits for the countries, but also needs to be differentiated by levels of accessibility. A country has a choice of which source of financing to use depending on the economic challenges it faces and its readiness to implement a specific package of reforms, as well as its willingness to mobilize alternative sources of macroeconomic expertise. However, a large number of sources does not guarantee fast and reliable access to funds. In some cases, these are conditional on implementation of a comprehensive reform program; the instruments have different procedures and timelines, and they are not always coordinated with each other. International collaboration here is important, e.g. among IMF, RFAs, and MDBs in order to avoid facility shopping, also in view of concerns of moral hazard.

The funds disbursed from all the sources in 2009–2019 totaled at least $16 bln. Their composition varies by country and year. Along with the massive financial support from the IMF, Armenia also received significant financing from the EFSD, MDBs, and Russia. Kyrgyzstan has primarily bilateral financial assistance from Russia and IMF financing for stabilization purposes. IMF, EFSD, and MDBs were the three most significant sources in Tajikistan. In Belarus, IMF (2009), Russian bilateral assistance, and EFSD were the most significant sources of stabilization financing.

We calculated the accessibility of stabilization financing sources for Armenia, Belarus, the Kyrgyz Republic and Tajikistan in the framework of three approaches. Our first estimates are the following: $4.2–5 bln for Armenia, $14.7–16.7 bln for Belarus, $3.4–3.9 bln for the Kyrgyz Republic and $2.3–2.4 bln for Tajikistan. However, two other approaches – with national reserves decreasing by 25% in absolute terms and not taking into account the national reserves at all – are more practical for purposes of analysis (since massive depletion of the national reserves is an extreme scenario which would result in a balance of payments' crisis).The set of estimates with a decrease of reserves by 25% is the following: $2.1–2.9 bln for Armenia, $7.7–9.7 for Belarus, $1.7–2.2 bln for the Kyrgyz Republic, and $1.3–1.4 bln for Tajikistan. The next set of estimates, fully excluding reserves (that is, comprising only external stabilization financing), is naturally smaller: $1.4–2.2 bln for Armenia, $5.3–7.3 for Belarus, $1.1–1.6 bln for the Kyrgyz Republic, and $0.9–1 bln for Tajikistan. The calculations provided do not include data for bilateral support, so the final total should be viewed as a conservative estimate. Nevertheless, we confirm very significant volumes of bilateral support, most of it coming from Russia, and important place of this source in the stabilization financing 'balance'. Potential amounts of stabilization support need to be adjusted for the level of coordination among institutions, coverage and predictability of financing sources, the specificity of instruments, and the depth of the crisis and the nature of the shock.

In this working paper, we have attempted to identify the **available sources of stabilization financing and their overall capacity**. In our analysis, we go beyond the "traditional" understanding of the GFSN as we account for a part of the MDB financing and the bilateral support aiming at macroeconomic stabilization. In the next papers, we plan to quantitatively answer the question of the **sufficiency** of available resources. To achieve this goal, we stress test various scenarios of economic shocks and the needed financial resources to withstand them and maintain macroeconomic stability in Armenia, Belarus, the Kyrgyz Republic and Tajikistan.

1. INTRODUCTION

The 2008–2009 global financial crisis repeatedly demonstrated the vulnerability of national economies, especially small ones, to external shocks as well as the importance of having financing sources that complement existing foreign currency reserves. In the context of post-Soviet Eurasia, the 2014–2015 crisis associated with a sharp drop in oil prices and devaluation of national currencies yielded important information about the external vulnerability of the region's economies.

Since the global financial crisis, the degree of interdependence of economies has continued to grow, both in terms of trade and in the flow of capital. The global trade network has become more interconnected through both an increase in the number of links among countries and more country clustering (IMF, 2016). Low-income countries and small, open economies are particularly vulnerable to external shocks coming from large regional or global economies. The relatively small size of their markets and, accordingly, their low ability to absorb shocks, as well as the dependence of their economies on external sources of financing, necessitate access to additional sources of support in the event of major regional or global economic shocks.

The concept of a multi-level international system aimed at coordinated response to global, regional and idiosyncratic financial and economic shocks has been developed to address these needs: the so-called Global Financial Safety Net (GFSN). The significance of the GFSN is growing in parallel with its increasing size, scope and the evolution of its elements. There are various political, economic and historical factors underlying the development and characteristics of GFSN elements (see Fernández-Arias and Levy-Yeyati, 2010, and Scheubel and Stracca, 2016). Traditionally, the GFSN has consisted mainly of countries international reserves and the IMF, which played the role of a global lender (ECB, 2016). As financial globalization increased, crises intensified due to sudden stops, and because of willingness to diversify potential sources of financial support due to protracted discussion of the IMF and World Bank Group reforms, the GFSN was expanded with additional sources of stabilization financing: new regional financing arrangements (RFA) and bilateral swap arrangements between central banks. A consensus has been formed in the literature that the following sources of stabilization financing are commonly attributed to the GFSN: IMF resources, funds from regional financing arrangements, FX reserves, and bilateral swap arrangements between central banks.

The causes of crises are varied and complex and could be caused by domestic and external factors or both. Whether the cause is domestic or external the crises could be associated with excessive fiscal deficits (a country having fiscal gap) or BOP related problems (a country having an external financing gap). Given the interlinkages between macroeconomic indicators, it is important to note that fiscal and external gaps are interdependent. The main components that connect external and budget balances are: (1) the current account balance and grants reflected in the budget; and (2) other investments in the financial account and external borrowings reflected in the fiscal sector. The interaction of these indicators is taken into account when assessing fiscal and external gaps. In this paper we look at a broader concept of stabilization rather than the GFSN, whose focus is required for a safety net to cover only external financing gaps.

In addition to the above GFSN elements, there are other sources of stabilization or similar 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 (MDBs), as well as bilateral financial support. In this working paper, we strive to show that both MDB instruments and bilateral financial support have been partially shifted towards a stabilization agenda (of course, keeping development as the main mandate).

Since the financial support sources under consideration are diverse, terminology needs to be clarified. Our terminological apparatus generally corresponds to the approach proposed in Ulatov, Pisareva, and Levenkov (2019). By stabilization financing, we mean budget or balance of payments support aimed at preventing and/or mitigating shocks to an economy. Such support means specifically the transfer of funds to the receiving party without determining their target nature; that is, the funds are disbursed to the recipient's budget and then allocated in accordance with the procedures and decisions of the recipient. Stabilization support can be carried out by transferring funds to the government budget or to the account of the central bank. Support may be conditioned upon the implementation of economic policy measures agreed with the donor or may be carried out without such conditions. Finally, the choice between a grant or a loan is a subject to agreement.

For example, a loan for construction or reconstruction of an energy infrastructure facility is not considered as stabilization support, while budget support required due to energy-sector regulatory reform or bilateral non-project-related financial credit can be considered as a stabilization instrument.

The question then arises whether the authors are mixing up development financing projects (development assistance) and crisis support (macroeconomic stabilization). Formally, the terms can intersect. Not all development instruments that are under our consideration are used directly to balance the budget or balance of payments. For example, the budget support provided by the World Bank at the end of 2019 to Armenia for the financing of development policies (Armenia Governance Development Policy Operation) is not an explicit stabilization program, as it was aimed at supporting the public-sector management system. On the other hand, in 2009, the ADB and World Bank operations to finance development policies in Armenia and the Kyrgyz Republic were explicit crisis tools, with corresponding titles or explanations (for example, the ADB's Crisis Recovery Support Program in Armenia in 2009).

However, even MDB development policy financing programs that do not explicitly refer to stabilization goals could be considered in the context of the stabilization agenda. This is particularly relevant for small economies with low per-capita income, where the flow of policy-based or bilateral financing over a multi-year horizon provides substantial support for government budget revenues and public debt sustainability. Finally, evidence shows that potential recipients of funds consider budget support from MDBs or bilateral financing and stabilization support (e.g., from the IMF) as complementary sources of financing, and they make choices based on the most acceptable conditions offered.

In this work, the authors have allowed themselves to put into one-basket programs of macroeconomic stabilization and programs for development policies, as well as a number of other sources of financing in the category of stabilization support. Such an approach allows a more accurate strategic assessment of the "market" of stabilization financing support.

The heterogeneity of stabilization financing sources has a number of advantages, such as an increase in the resources available to countries, the ability of a country to choose which instrument to request, and the provision of additional sources of macroeconomic expertise and supervision. However, the availability of each element of stabilization financing may be limited, and their use is conditional upon the implementation of a comprehensive reform program. For the borrowing state, the key factors in choosing sources of stabilization financing are likely to be the following: price of resources, speed at which they are disbursed, reliability and predictability of access, and conditionality.

However, stabilization-financing sources are not fully interchangeable. They match the circumstances depending on the type and strength of the external shock, conditions and conditionality, and the project cycle. For example, there is a concept of sequential complementarity for RFAs and IMF activities. Jeanne (2010) puts forward the idea of a "two-tier system" for an RFA to act as the first line of defense, bolstered by IMF financing with stringent conditionality. It is assumed that an RFA can provide financial support to a country in the shortest possible time, with minimum conditionality, in order to allow its members enough time to apply to the IMF with the request to develop a program that is generally more comprehensive in terms of conditionality.

Meanwhile, the recent COVID-19 crisis revealed that the IMF could be flexible when facing abrupt and "unusual" shocks. The IMF was very fast in negotiating on Rapid Credit Facility and Rapid Financing Instrument and disbursing urgently needed emergency financing in the form of upfront outright disbursements. The institution was de facto faster than all the RFAs. Two EFSD countries have already benefited from IMF rapid support – Kyrgyzstan and Tajikistan. It should also be taken into account that the support was considered to more than hundreds of IMF member-states. After the crisis, this situation should be further studied by the RFAs in order to check if their toolkit and procedures need to be adjusted for more rapid and flexible response.

The issue of coordination between funding channels is also important in view of the risk of weakening and/or delaying reforms, if several alternatives are offered. For the recipient of funds, this provides an opportunity to simplify the parameters of conditionality of financing. On the other hand, it is during crisis episodes that additional political opportunities for reform appear (OECD, 2009), so it is important to focus on choosing the most significant and powerful measures. At present, the interaction of various tools and the necessary degree of multilateral cooperation are becoming particularly relevant (for more details, see Cheng, 2016, and RFA Joint Staff, 2018).

The scale of financing available to address short-term liquidity needs has increased more than three-fold since the global financial crisis and the scale of development finance has roughly doubled. There is more than $12.8 trillion of short-term liquidity available, which is about 15% of world GDP. At the same time, an additional $1.2 trillion has been allocated at the MDB level (Kring and Gallagher, 2019).

The GFSN structure has changed over time. For example, the number and amount of BSAs between central banks increased significantly during the 2008–2009 global financial crisis, and the development of regional financing arrangements received an impetus. The COVID-19 shock has also led to a surge in BSAs (Federal Reserve System (2020).

It is important for the Eurasian Fund for Stabilization and Development (EFSD) as a regional financing arrangement (for more information, see Vinokurov, Efimov, and Levenkov, 2019) to estimate the accessibility of financing resources for the EFSD borrowing countries[1] in order to improve those countries' readiness to face economic shocks. In addition, for both the EFSD and other institutions that provide financial support programs that account for alternative resources available to the potential borrower, coordination with development partners is a significant factor for ensuring the quality and sustainability of programs.

EFSD borrowing countries belong to different groups in terms of gross national income per person, which affects the availability and cost of stabilization financing. Tajikistan is a low-income country; the Kyrgyz Republic is a lower-middle-income country; Armenia and Belarus are upper-middle-income countries. This classification directly and indirectly influences the cost and potential volume of available stabilization sources. For example, in 2009, the IMF strengthened support for low-income countries, given the changing economic conditions in these countries and their increased vulnerability due to the impact of the global financial crisis. The Fund revised its lending instruments, mainly to better respond to the needs of countries for short-term and emergency support. In 2015, support provided by the IMF to the least developed economies was increased by expanding their access to concessional resources. In 2019, the IMF made further enhancements in its facilities for low-income countries (IMF, 2019).

[1] For the purpose of this paper, EFSD recipient countries or borrowers refer to the Republic of Armenia, the Republic of Belarus, the Kyrgyz Republic and the Republic of Tajikistan.

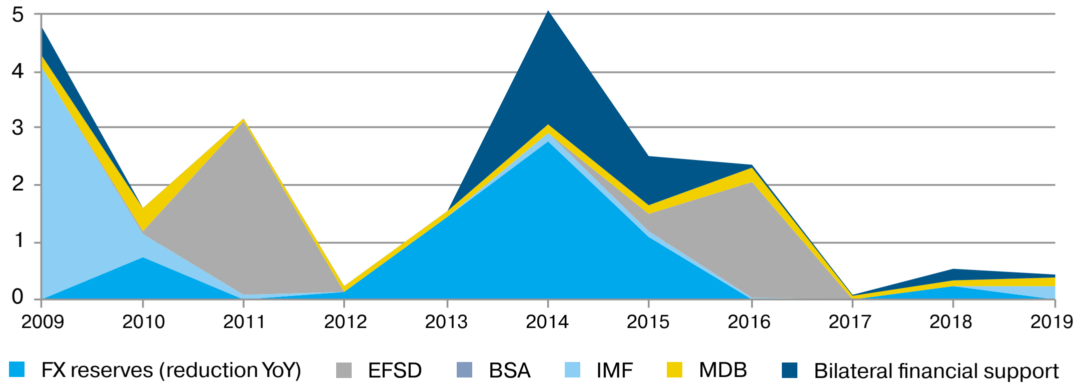
Our proposed analysis of the accessibility of stabilization financing sources is relevant to Armenia, Belarus, the Kyrgyz Republic (Vinokurov, Lavrova, and Petrenko, 2020) and Tajikistan because of their high fiscal and debt vulnerability to large external shocks. Economic shocks caused by the global spread of COVID-19 and the sharp drop in oil prices are clear evidence of that.

This working paper is organized in the following way. Section 2 presents a retrospective analysis of stabilization financial support used by Armenia, Belarus, the Kyrgyz Republic and Tajikistan: Subsection 2.1 reviews the dynamics of FX reserves; subsection 2.2 identifies BSAs of EFSD borrowing countries based on public data; subsection 2.3 describes the roles of the EFSD and the IMF as important sources of stabilization financing for Armenia, Belarus, the Kyrgyz Republic and Tajikistan; subsection 2.4 analyzes MDB activities in the context of stabilization financing goals and the amount of such support; subsection 2.5 describes the role of Russia and its bilateral loans in stabilization support for these countries. Section 3 describes the accessibility of financial resources to Armenia, Belarus, the Kyrgyz Republic and Tajikistan. Available international reserve assets are considered as accessible domestic sources in each country; RFA and IMF funds are considered as external resources. BSAs between central banks (data on which is collected from publicly available sources); potential volumes of budget support from MDBs based on historical data, and bilateral financial support are also considered additional stabilization financing sources. The conclusion summarizes the results of our work and our further research agenda on the adequacy of available resources to cover potential financial gaps in these countries.

2. STABILIZATION FINANCING SOURCES

In this section, we look at the stabilization financing sources used by Armenia, Belarus, the Kyrgyz Republic and Tajikistan from 2009 to 2019. Over that decade, these countries have been facing the consequences of the global financial crisis of 2008–2009, as well as the 2014 to early 2015 external economic shock and the Russian ruble devaluation in late 2014, and were forced to actively use stabilization financing (Figure 1).

Figure 1. Dynamics of Various Financial Support Sources used by Armenia, Belarus, the Kyrgyz Republic and Tajikistan in 2009–2019, US$ bln



Source: authors' calculations

Although the authors of this document comprehensively approached collecting and analyzing data, the data on the scope of financial support is not complete for two reasons. The first is limited access to information on BSAs between central banks; the second is the fragmented publicly available information on bilateral financial support.

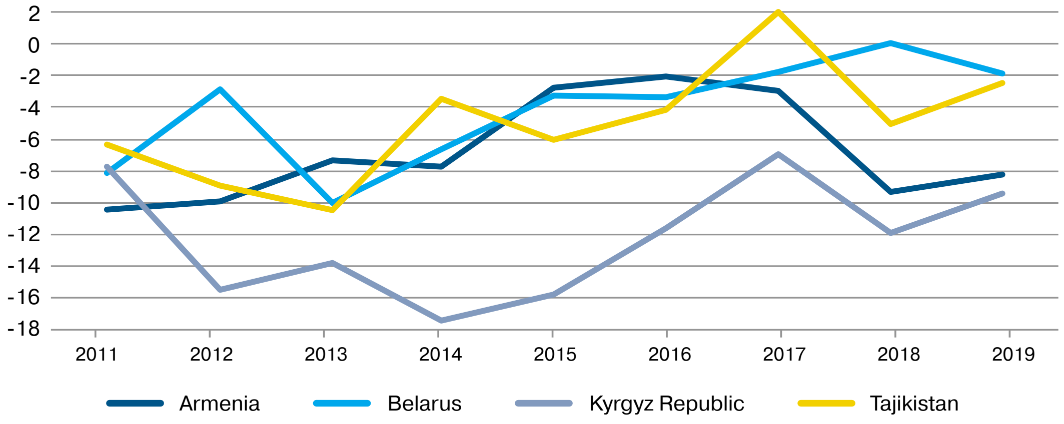
2.1. International Reserve Assets

The EFSD countries share similar macroeconomic challenges and structural constraints, including high growth-volatility, high debt, chronic current account and fiscal deficits, and low reserves.

Moreover, the economies continued to face severe constraints, which could be attributed to weak foundations for long-term stable growth, including: (1) dominance of the government sector and an underdeveloped private sector; (2) a high share of informal activities; (3) high regulatory barriers; (4) undeveloped banking and financial sectors; (5) distortions on the labor market; and (6) run-down infrastructure (Ulatov, Pisareva, and Levenkov, 2019).

The trade deficit in the countries under consideration (see the figure 2), combined with a chronic current account deficit (an average of –6.8% in Armenia, –4.2% in Belarus, –12.2% in the Kyrgyz Republic, –5% in Tajikistan in 2011–2019).

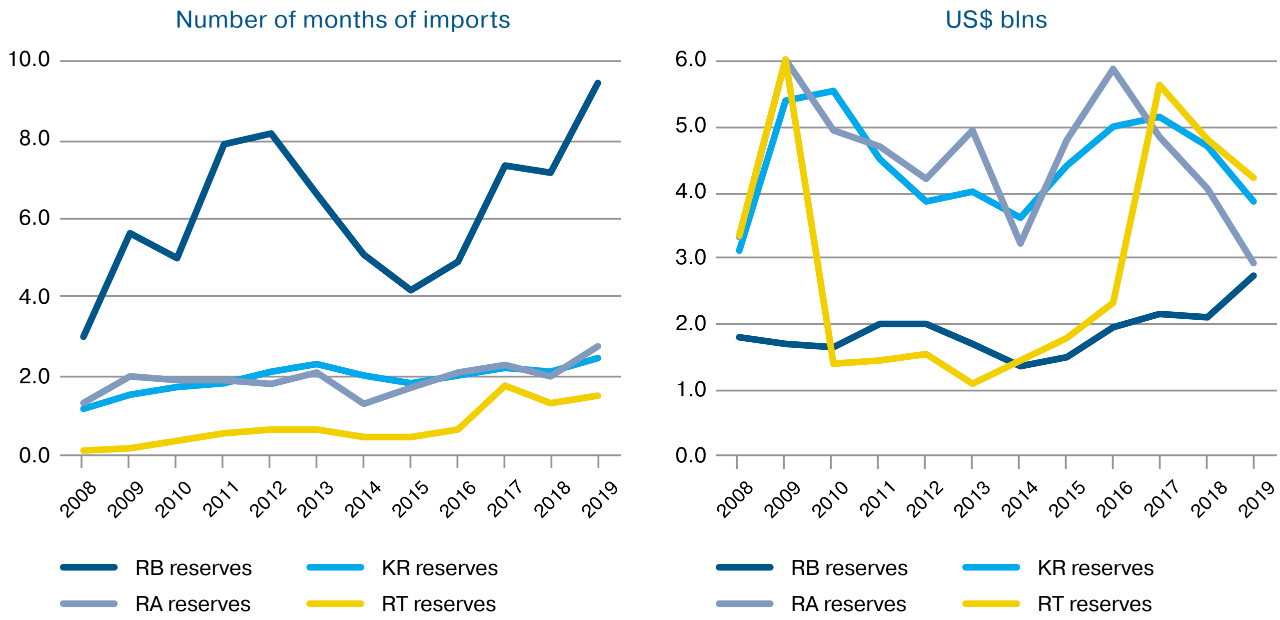
Figure 2. Current account balance in percentage of GDP



Source: authors' calculations based on WB data

In addition, insufficient inflow of foreign capital and significant demand of the population for foreign currency (cash and non-cash) have contributed to the low FX reserves (Figure 3). Improved macroeconomic and financial policies in Belarus in recent years, along with better external conditions, significantly reduced current account deficits. The current account deficit was down sharply from the levels in 2014–2015.

Figure 3. FX reserves



Source: authors' calculations based on state statistics

When calculating the volumes of financial support in order to consolidate information on the total allocated funds, the authors used a simplified analysis: the reduction in international reserves year to year. This approach is applied with the understanding that the change in international reserves can be caused by many factors that are not always related to the depletion of international reserves to stabilize the economy.

Table 1. Reduction in FX Reserves, January to January, US$ bln (Percentage YoY – in brackets)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	x	−0.14 (−6.9)	x	−0.13 (−6.9)	x	−0.76 (−33.9)	x	x	x	−0.05 (−2.4)	x
Belarus	x	−0.61 (−10.9)	x	x	−1.44 (−17.8)	−1.59 (−23.8)	−0.89 (−17.7)	x	x	−0.16 (−2.2)	x
Kyrgyz Republic	x	x	x	x	x	−0.28 (−12.5)	−0.18 (−9.2)	x	x	−0.02 (−0.9)	x
Tajikistan	x	x	x	x	x	−0.15 (−22.5)	−0.02 (−3.8)	x	x	−0.01 (−0.6)	x

Source: authors' calculations based on International Financial Statistics

Table 1 shows our calculation of reductions in international reserves year-over-year (for illustrative purposes, periods of reserves growth are excluded from the table). In 2010, after the global financial and economic crisis, there was a significant reduction in international reserves by 6.9% and 10.9% in Armenia and Belarus, respectively. The next trough in the use of reserves was in 2014–2015. The most recent annual decline in reserves was in 2018. Thus, the statistics shows two troughs: in the period immediately after the global financial crisis, and in the years coinciding with the 2014 regional economic shock. There was also a slight decline in 2018 due to exchange rate fluctuations.

As mentioned earlier, this calculation of annual changes in international reserves is a simplification. Therefore, we have considered monthly changes in reserve assets in order not to overlook the annual indicator fluctuations.

The biggest changes in reserves were seen in Belarus in 2009–2010 and 2013–2015 and in Armenia in 2009–2010 and 2013–2015, with increased volatility in subsequent years up to 2019. The dynamics of the Kyrgyz Republic's international reserves clearly show only one period of decline, 2014–2016; however, the impact of the global financial crisis also contributed to a slightly accelerated use of reserves than in other off-peak periods. As to Tajikistan, it is the period of 2013–2014, when reserves fell by $300 million, or about 45%, in five months.

Thus, the statistics for reserves reduction, as well as for changes by year, show two troughs that coincide with global and regional crises: 2009–2010 and 2014–2015.

The sharpest decrease in international reserves is from the end of 2014 to the beginning of 2015, when, in the face of external economic shock and the devaluation of the Russian ruble, the central banks of the region took measures to maintain the exchange rate of their national currencies by conducting currency interventions. Later, overall, in all the countries, the exchange rate was adjusted and monetary policy tightened, which allowed them to stop the reduction of their international reserves.

Subsequently, the reduction of the current account deficit, the access of states to foreign debt markets, and financing from IFIs made a positive contribution to the restoration of reserves. For example, Belarus shifted to a more flexible exchange rate regime in early 2015; reserves have stabilized and begun to rise. Nevertheless, in Belarus, despite the continuous growth of reserves since the beginning of 2016, they continue to remain below the optimal level, as determined by the IMF reserve adequacy metric.

As compared to other stabilization financing sources, self-insurance through accumulation of FX reserves has a significant advantage, namely, high predictability and speed, since the country can access and use the relevant resources at its own discretion. The use of FX reserves is also not conditional, as opposed to financing resources such as RFAs, the IMF or MDBs. However, in order to maintain the function of sufficient "insurance" against crises and their aftermath, the volume of FX reserves must be adequate to respond effectively to crises.

International evidence shows that when negative economic shocks happen, national regulators tend to keep their currency reserves from falling significantly. Aizenman and Sun (2009) note that even in times of acute economic shocks (such as the 2008–2009 global financial crisis), far from all regulators significantly reduce reserves. Notably, from July 2008 to February 2009, the 12 largest developing economies experienced either a slight decrease in reserves or none at all. Most developing economies do not reduce their reserves below the 100% IMF reserve adequacy metric, instead using, for example, the exchange rate to absorb shock, or bilateral swap agreements between central banks.

The ARA metric[2] for Belarus (61%) is far below the recommended value of 100–150%, while in Armenia it is slightly above the norm – 124% as of April 2020. For Kyrgyz Republic according to the 2019 Article IV report foreign exchange reserves at 4.0 months of imports at end-2018 are above levels indicated by both the IMF reserve adequacy metric for credit-constrained economies and the standard metric of three months of imports. For Tajikistan, there is no publicly available information on adequacy of reserves.

However, as the previous experience shows, FX reserves can be used to carry out interventions in the currency market in order to smooth currency fluctuations and maintain confidence in the national currency.

Thus, in 2009–14, the EFSD borrowing countries used FX reserves principally for smoothing exchange rate fluctuations. From 2015, upon exchange rate liberalization, the FX reserves began to perform a signaling function on the country's external position for economic agents. That means that FX reserves have not been used in these countries directly as a stabilization instrument during crisis periods.

2.2. Bilateral Swap Arrangements

From the perspective of the GFSN's evolution, the 2007–2008 global financial crisis was characterized by a growing number of central bank BSAs (Dominguez et al., 2012). The U. S. Federal Reserve System has significantly expanded the number of these agreements, but there are no BSAs between the Fed and Armenia, Belarus, the Kyrgyz Republic, or Tajikistan.

In 2009, the People's Bank of China began to take active measures to internationalize the Renminbi. One of these was to conclude a large number of BSAs with a number of countries, both developing and developed. The main purpose of the BSAs was to facilitate the development of trade with other countries and to attract investment. China has traditionally been active in the EFSD region of operations by entering into BSAs with Armenia, Belarus and Tajikistan (Table 2). The recipient countries are interested in obtaining funds through RMB swaps in order to expand trade, service Chinese loans and replenish national reserves.

[2] The ARA metric is a combined measure of the adequacy of reserves based on the IMF's formalized model. It characterizes the adequacy of reserves for various indicators, including coverage of imports and broad money, etc. For more information see https://www.imf.org/external/np/pp/eng/2016/060316.pdf

Table 2. BSAs with China

Country	Amount, RMB	Date of Agreement	Status
Armenia	¥1 bln	2015*	Expired
Republic of Belarus	¥20 bln ¥7 bln	2009 + 2011 prolongation 2015 + prolongation in 2018**	Expired Active
Kyrgyz Republic	None		
Tajikistan	¥3 bln	2015***	Expired
For reference: **Russia** **Kazakhstan**	 ¥150 bln ¥7 bln	 2014 + prolongation 2017 2011 + 2014 prolongation**** + prolongation 2018*****	 Active Active

Sources: * http://www.armbanks.am/2015/03/25/85890/
** http://www.pbc.gov.cn/en/3688229/3688353/3688362/3711354/index.html
*** http://russian.cri.cn/881/2015/12/14/1s568746.htm
**** https://kapital.kz/finance/35919/rk-i-kitay-zaklyuchili-soglasheniye-o-valyutnom-svope.html
***** http://www.pbc.gov.cn/en/3688229/3688353/3688362/3711354/index.html

For reference: exchange rate as of early 2020: 1 USD = 7 RMB)

The standard term of BSAs in the case of China was three years, subject to extension by mutual agreement of the parties.

Belarus has become the leader by volume of the resources received. Overall, the size of BSAs is linked to the volume of bilateral trade turnover. However, in 2009, BSAs with the Republic of Belarus covered the three-year trade turnover (according to Chinese statistics, in 2007, the ratio of BSAs to bilateral annual trade turnover was 345%, and to Chinese exports 1,277%). This was the highest ratio of BSAs to China's turnover and exports at that time among all countries. Yet Belarus is not a priority trade partner for China (the share of bilateral trade turnover in total Chinese turnover does not exceed 0.04%), which is why the Belarusian-Chinese BSAs can be considered as a form of financial support from China to Belarus amid the global economic and financial crisis (Rudy, 2010). Such an agreement has an important signal value, and resources, if necessary, can be used to refinance previous loans.

In turn, BSAs with Armenia and Tajikistan were mainly aimed at servicing mutual trade turnover and financing Chinese imports.

Thus, we see a significant difference in the functions of BSAs. For advanced and emerging economies during the global financial crisis, Fed BSAs provide their central banks with dollar liquidity (especially in the Asia-Pacific region), which played an important crisis-mitigating role. In the four countries we are considering, the main goal of such BSAs was to service foreign trade and related Chinese lending, perhaps with the exception of the case of Belarus in 2009.

2.3. IMF and EFSD

The EFSD borrowing countries have actively applied for EFSD and IMF support in order to mitigate the impact of the crises.

The main crisis management tool of the EFSD and IMF is the financing of budget and balance of payments support. These loans are allocated conditional to approval of a matrix of measures with systemically important reforms aimed at ensuring macroeconomic stability and achieving sustainable long-term economic growth.

Ten IMF and five EFSD financing operations were provided in the countries within the EFSD region of operations (Table 3) from 2008 to 2019.

Table 3. EFSD and IMF Arrangements in the EFSD Region, 2009–2019

Country	EFSD	IMF
Armenia	(Macrostabilization and structural reforms) 2015: US$ 300 mln	(SBA) 2009: $736.3 mln (EFF) 2010: $184.1 mln (ECF) 2010: $184.1 mln (EFF) 2014: $113.4 mln (SBA) 2019: $248.4 mln
Republic of Belarus	(Macrostabilization) 2011: $3 bln (Macrostabilization and structural reforms) 2016: $2 bln	(SBA) 2009: $3.2 bln
Kyrgyz Republic	None	(ESF) 2008: $91.9 mln (RCF) 2010: $34.2 mln (ECF) 2011: $91.9 mln (ECF) 2015: $91.9 mln
Tajikistan	(Macrostabilization) 2010: US$ 70 mln (Macrostabilization and structural reforms) 2016: $40 mln	(ECF) 2009: $144 mln
Total:	$5.410 mln	$5.120 mln

In the calculation of the amount of IMF loans, the recalculation is based on the exchange rate 1 SDR = 1.38 USD. For a description of IMF lending operations, see Box 1.

Sources: EFSD, and IMF websites

From 2009 to 2019, the volume of EFSD and IMF financial resources provided under the budget/balance of payments support arrangements was almost the same – $5.4 bln and $5.1 bln, respectively. At the same time, the IMF concluded more arrangements.

Table 3 shows that the IMF (Box 1) and EFSD had different lending arrangements in terms of objectives and timing. In the case of EFSD, there is only one type stabilization instrument – Financial Credit.

Box 1: IMF Arrangements in the EFSD Region of Operations

SBA (Stand-by Arrangement) is intended to help countries overcome short-term balance-of-payments problems. Disbursements are conditional on the achievement of certain conditions ("conditionality"). SBA financing usually has a term of 12–24 months and is repaid within 3–5 years from the date of actual disbursement.

The IMF's **Extended Fund Facility (EFF)** is intended to help countries overcome medium- and longer-term ("protracted) balance-of-payments problems that require fundamental economic reforms. EFF arrangements are generally longer than SBA and usually do not exceed three years at the time of approval. However, a maximum period of four years is also allowed if the BoP requires financing for more than a three-year period, adjustment needed to restore macroeconomic stability is a lengthy process, and there is sufficient assurance that member states are capable and willing to undertake deep and consistent structural reforms. Maturity: 4.5–10 years from the date of actual disbursement.

The ECF (Extended Credit Facility) is the main IMF instrument of medium-term support to low-income countries with long-term balance of payments difficulties. ECF funding is currently at zero interest rate, with a grace period of 5.5 years and a full maturity of 10 years.

After the global financial crisis, the stabilization agenda prevailed in the first IMF and EFSD programs. For example, in 2010 the EFSD extended to Tajikistan its first loan, with the main goal to support social budget spending, which could have escalated because of unforeseen expenditures due to recent landslides. The IMF supported Armenia in 2009 for macrostabilization purposes. In 2011, the EFSD provided expedient support to Belarus, helping to mitigate the impact of the BoP crisis and restore macroeconomic stability (Vinokurov, Efimov, and Levenkov, 2019).

The role of the lending arrangements of the EFSD and the IMF in the region has evolved over time. Recent arrangements, in addition to the main stabilization tasks (mainly monetary and budgetary), have also included a wide range of structural measures and reforms aimed at achieving long-term development goals. This was largely due to major structural and institutional constraints that exacerbate macroeconomic imbalances and make countries vulnerable to various shocks.

2.4. Multilateral Development Banks

Stabilization is not the main function of multilateral development banks and is not even reflected in their mandates. However, since macroeconomic stabilization and development objectives are closely interrelated (Ulatov, Pisareva, and Levenkov, 2019), the MDBs do not stand aside during periods requiring financial support. Currently, four MDBs provide budgetary support: Asian Development Bank, African Development Bank, Inter-American Development Bank and World Bank.

Economic shocks can have a significant impact on the efficiency and effectiveness of development policies, so that maintenance of financial and economic stability falls within the MDBs' focus. Although their mandate does not include macroeconomic stabilization, these development institutions, as our analysis of their lending programs shows, in some cases use similar instruments.

The shift of MDBs towards the IMF's and GFSN's agenda is highlighted in a report prepared by the Inter-American Development Bank (IADB, 2016), which shows how the impact of external shocks has prompted multilateral development banks to provide anti-crisis instruments to the borrowing countries to avoid slowdown in development caused by the crisis. By providing such loans, MDBs complement other preventive and response measures, namely: accumulation of FX reserves, reduction of over-indebtedness, market exchange rates and IMF support.

A study by the Asian Development Bank (ADB, 2019) shows that, in addition to RFAs at the regional level, MDBs can serve as a significant source of financial support to countries during a crisis, mitigating the negative social and economic impacts and improving financial sustainability in the region. For example, in Asia, ADB has provided substantial financial support to countries through its stabilization instruments. This support was particularly strong in 2009–2010, amounting to $7.7 bln.

The MDB instrument closest in form and content to the IMF and RFA instruments is budget support in the form of Policy-Based Lending (PBL) and Programs for Results (PfR). Budget support is provided for a wide range of purposes: reforming institutions, improving investment climate, reducing transaction costs, and increasing the efficiency and effectiveness of government spending. The PfR tool is also provided for the implementation of policies, although the donor transfers funds based on the results of specific government activities. The tool is thus a cross between investment loans and budget support.

Stabilization financing has a special place in the forms of budget support. This instrument differs from traditional budget support by its direct reference to a stabilization agenda (e.g., the ADB's Countercyclical Support Facility, the AfDB's Anti-Crisis Budget Support) and the possibility of deferred disbursement. A separate type of stabilization financing is designed to provide support in case of natural disasters (not discussed in this paper). Some crisis-response instruments were created by MDBs for a limited period, such as the ADB's Countercyclical Support Facility (ADB CSF). It is worth noting that for the countries analyzed in this working paper only Armenia is eligible for the ADB CSF – CSF.

The MDBs' conditional financing can be considered as a complementary channel for stabilization support, both preventive and anti-crisis. On the one hand, the availability of such sources of liquidity creates additional channels for withstanding economic shocks; on the other, there is a risk that necessary reforms could be postponed due to relinquishment of IMF arrangements and/or other GFSN instruments, where financing conditions may require more decisive measures than MDBs' budget support. At the same time, there are established mechanisms for coordinating MDB financing with the IMF. In particular, several largest MDBs follow a requirement to make decisions on budget support based on the macroeconomic assessment of the IMF and the use of the so-called IMF assessment letters.

Not only MDBs are adjusting their mandate – towards stabilization. There is also a noticeable and symmetric shift of the IMF in the direction of the MDBs' agenda. Thus, the IMF is now paying more attention to structural challenges, in particular in low-income countries and transitional economies, where structural issues (the traditional domain of MDBs) are a significant obstacle to economic stability and growth. The conditionality parameters of IMF arrangements continue to evolve as well. In recent years, the IMF has included corruption and gender inequality in its areas of interest. Such qualitative shifts in the work of the IMF show that the institution is increasingly approaching multilateral development banks' PBL activities (Vinokurov, Levenkov, 2020).

In the EFSD region, the World Bank and the Asian Development Bank are the most active among other MDBs. The authors analyzed information provided on the websites of the bank's financing activities during 2009–2019.

Within the scope of all extended financing authors selected a subset of projects with the following characteristics. First, the projects are not related to construction of physical infrastructure (objects) either to provision of technical assistance (TA) only.

Normally, MDBs' investments in physical infrastructure (objects) should not be considered as stabilization or crisis support. One may argue that public expenditures on infrastructure is the source for stimulating supply. However, is not applicable to stabilization financing, but should be considered as in development assistance. Infrastructure projects is a relatively long-standing series of iterations (project initiation and planning, procurements that are distributed by several years) that does not allow for fast disbursement of funds. Moreover, the purpose of the expenditures is predetermined so that the government cannot allocate the funds by their own discretion. When saying "normally" in this paragraph authors admit that there are cases when infrastructure projects are part of crisis response. One example, we suppose that in case of natural disasters and technological accidents MDBs' emergency investments in recovery of physical objects is a stabilization-like financing that directly reacts to crisis events and supports public budget by allowing more space to respond to crisis instead of bearing emergency expenditures (however, in this paper, authors didn't' include this category in the subset of stabilization financing). Another more particular and even more debatable example is when urgent investments in infrastructure are needed to support financial instability of critical infrastructure projects. In the region of EFSD operations Nurek HPP reconstruction project in Tajikistan is the example.

After carving out infrastructure and TA projects authors focused on analysis on budget support activities conditioned with policy measures. On this step, it was quite easy to define a group of projects with clear indication of stabilization aim at the description of the project (emergency budget support, counter-cyclical instrument etc.). The more complicated task was to consider budget support that does not have a clear reference to a crisis response. In this, analysis authors relied (in addition to analysis of each program activities) on two features: budget support outside of crisis episodes and aimed at strengthening macroeconomic fundamentals.

This data analysis gave us two groups of projects “general” budget support and stabilization support as its subset.

From 2009 to 2019, the WB and ADB provided financial resources to Armenia, Belarus, the Kyrgyz Republic and Tajikistan in the amount of US $1.8 bln. By contrast, the EFSD and IMF provided financing of around US $10 bln over the same period. Although the level of MDB financing is considerably lower than that of those institutions, it is still significant (about 20%). It is more evenly distributed in terms of new programs over the years, allowing almost ongoing interaction with the countries in the programmatic format, to maintain the financial support policy dialogue.

ADB funds were used in the Kyrgyz Republic and Tajikistan to improve the investment climate, and funds were used in Armenia to improve infrastructure management and planning processes. During the period under review, the WB implemented sectoral budget support programs in Armenia and the Kyrgyz Republic in the energy sector.

Stabilization support of the ADB and the WB can be estimated at around $780 mln out of general budget support totaling to $1.8 bln. These programs explicitly refer to macroeconomic sustainability and crisis response or impact (Table 4). In our summary table on all sources of finance (Table 7) we put together “general” budget support numbers assuming that in analysis of accessibility of stabilization resources would give us a more comprehensive picture of MDBs’ efforts to support macroeconomic stability both in and outside of pronounced economic shocks.

Table 4. Stabilization Financing by the WB and ADB, $ mln

Country	2009	2010	2011	2012	2015	2016–2019	Total
Armenia	140	–	25	80	50	–	295
Belarus	200	–	–	–	–	–	200
Kyrgyz Republic	–	170	30	–	–	–	200
Tajikistan	40	25.4	–	20	–	–	85.4
TOTAL	**380**	**195.4**	**55**	**100**	**50**	–	**780.4**

Source: authors’ calculations based on World Bank and Asian Development Bank data

The most active years of operations include the period after the 2008–2009 global financial crisis. Over two years, WB and ADB provided financing totaling around $570 mln. WB programs were closely linked to IMF financing. Thus, in 2009, the IMF crisis arrangements in Armenia and Belarus were complemented by WB resources to overcome the consequences of the global financial crisis.

It should be noted that 2014–2016, when the EFSD and IMF introduced new arrangements, was also a time of active programs of the WB and ADB in the countries under consideration.

2.5. 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. Its structure and scope are influenced by the motives of the donor for providing such support and by the per-capita income group to which the recipient country belongs. Studies on aid allocation particularly highlight altruistic, commercial and political motives of the donor country. The main characteristics of the recipient country are the urgency of its need for assistance – i.e., the level of its socio-economic development – and its access to international capital markets. The recipients are divided into groups based on the World Bank's GNI per capita criterion in order to take into account the differences between countries based on the above characteristics.

The support of the Russian Federation is very important for the countries under consideration (Armenia, Belarus, the Kyrgyz Republic and Tajikistan). This support can have diverse motivations, which include strategic influence in the region, military-political cooperation, ensuring soft security (e.g., combating drug trafficking), stimulating integration processes, and promoting sustainable economic development of the region as a whole.

The second important regional donor is China. In a study by the Kiel Institute of the World Economy (Horn, Reinhart, Trebesch, 2019), the authors tried to collect and calculate disparate data on China's foreign loans, trying to establish the volume, purpose and characteristics of China's foreign lending. For many countries, including Kyrgyz Republic and Tajikistan, debt to China currently stands at 40 percent or more of external debt.

Financial assistance can be provided either through official development assistance or as part of anti-crisis support (Morozkina, 2019).

Official development assistance is provided based on the World Bank's country classification by GNI per capita. The group of lower-middle-income countries includes the Kyrgyz Republic and Tajikistan. Armenia joined Belarus in 2018 as an upper-middle-income country. As part of official development assistance, Russia provided financial support in the amount of $132.1 mln to Armenia, $15 mln to Belarus, $1.04 bln to the Kyrgyz Republic and $121 mln to Tajikistan from 2009 to 2018 (according to the OECD statistics). Hence, Russia played a very important role in shaping the international development assistance agenda; any further large increase in official development assistance flows is unlikely, however, and the emergence of new donors will have no major impact on the situation (Bokarev and Markov, 2016).

Stabilization support from Russia to Armenia, Belarus, the Kyrgyz Republic and Tajikistan was provided through bilateral loans, debt forgiveness or grant aid. As a rule, this type of assistance helps to mitigate countries' budget and debt vulnerabilities, as well as to refinance debts to the Russian Federation. In the case of the Kyrgyz Republic, bilateral support from Russia exceeded the amount of financial resources received from the IMF and EFSD (Box 2).

Box 2: Bilateral Anti-Crisis Support from Russia to the Countries of the Region

Belarus

In November 2008, Russia provided a 15-year loan facility of $1 bln to Belarus, which was extended in March 2009 by a further $500 million. Belarus received two loans under the facility in the total amount of $2.0 bln from the Russian Government in 2014 and two loans in the amount of $870 mln in 2015. This support had a clear anti-crisis nature against the background of economic crisis, devaluation of the national currency, reduction of budget revenues and reduction of international reserves to critically low levels.

Armenia

Russia extended to Armenia a stabilization loan of $500 mln in 2009 to overcome the consequences of the global economic crisis*.

Kyrgyz Republic

In 2016–2017, Russia wrote off US $60 mln of the Kyrgyz Republic's debt. As part of an intergovernmental agreement between the countries, Russia wrote off the remaining US $240 mln to the Kyrgyz Republic in 2018 on earlier loans. Debt relief is provided by Russia as part of its "official development assistance to the Kyrgyz Republic". In 2005, $184.3 mln was restructured and written off within the Paris Club, and $488.9 mln during the period from 2005 to 2015**.

In March 2019, the Russian government decided to extend to the Kyrgyz Republic $30 mln in non-repayable financial aid to support the state budget.***

Source: public data and Eurobond prospects

* https://iz.ru/news/444206
** https://www.interfax.ru/business/567392
*** https://ria.ru/20190327/1552161492.html

Russia also provides assistance to these countries in other forms not covered by development assistance statistics. Energy supply conditions serve as an example.

The forms of Russia's bilateral financial support that prevailed in the Kyrgyz Republic, as a low-income country, differed from those provided to Belarus and Armenia, which received bilateral anti-crisis loans from Russia, while the Kyrgyz Republic received support in the form of debt forgiveness and grant aid.

Belarus, as the largest economy among the region's borrowing countries, received financial support from China in the form of credit lines, in addition to bilateral support from Russia, in order to address its balance of payments deficit and to support FX reserves. In 2015, an intergovernmental loan of $3 bln at a concessional rate was extended to Belarus, as well as a virtually unlimited credit line in RMB, of which $618 mln equivalent was used (Rudy, 2019).

2.6. Conclusions

Stabilization financing sources in the region are diverse, although in individual economies, they focus on one or more channels of support. Armenia and the Kyrgyz Republic had clear, main sources of stabilization financing: the IMF and bilateral financial assistance from Russia, respectively. Tajikistan, on the other hand, had no record of bilateral financial support from Russia. Belarus is the only country that received stabilization financing from all the above-mentioned sources. 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; these countries actively used anti-crisis financing from MDBs and received a significant amount of bilateral support from Russia. Vinokurov, Levenkov (2020, forthcoming) in their study found out that this situation is not only a Eurasian case but also a general phenomenon. MDBs, with their budget support programs, supplement existing RFAs in the region, for example, in the case of ADB, the CMIM in Asia. In the case of the African Development Bank, the RFA, which is absent in the region, is actually being replaced. At the global level, the World Bank is complementary to the IMF. This proves that these stabilization financing sources are important and can be considered in the future in the event of adverse external shocks. (Figures 4–7)

Figure 4. Stabilization Financing Sources, Armenia, 2009–2019

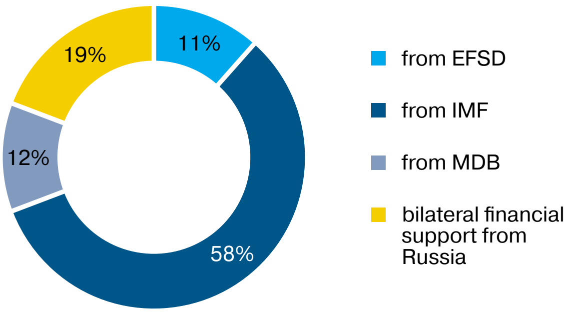


Figure 5. Stabilization Financing Sources, Belarus, 2009–2019

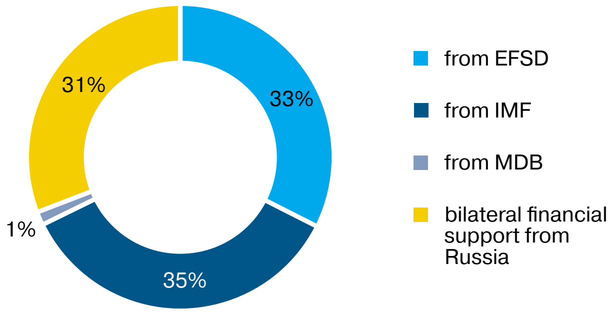


Figure 6. Stabilization Financing Sources, Kyrgyz Republic, 2009–2019

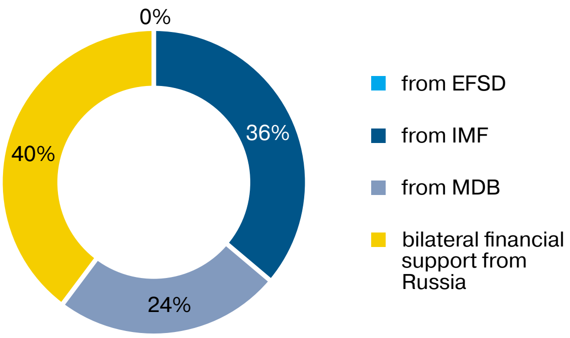
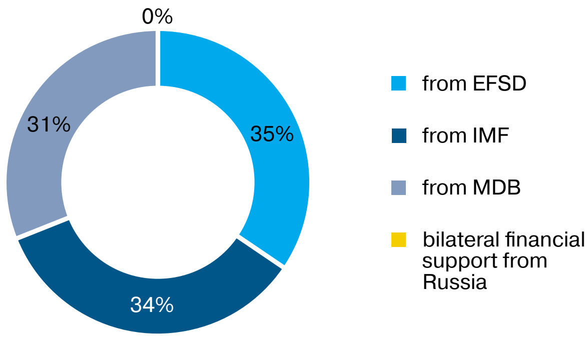


Figure 7. Stabilization Financing Sources, Tajikistan, 2009–2019



There are two distinct time periods, 2009–2011 and 2014–2016, when IMF and EFSD financial sources were used, which is fully consistent with their anti-crisis nature.

This is not the case for resources provided as budget support by multilateral development banks. One of the pronounced features of MDBs' support is that their financing flow is lower as compared to other sources, but more evenly distributed over the years. MDB support for all member countries ranges from $40 mln to $400 mln per year. The ADB and WB provided $700 mln in 2009–2011 and the same sum in 2014–2016. In total, from 2009 to 2019 the countries received US $1.8 bln of budget support from the MDBs under consideration. By contrast, the programs implemented by the EFSD amounted to $5.4 bln and the arrangements by the IMF amounted to $5 bln. Although the MDB financing is considerably less than that of these institutions, it is still significant. At the same time, MDBs can mobilize significant additional resources in case of significant country shock to complement stabilization efforts and financing of the GFSN core elements, including IMF and EFSD.

As for bilateral crisis support, the scattered available data, which can be used only indicatively, show that the total for the period under review is about $4 bln. This is comparable to the largest anti-crisis institutions. At the same time, the volumes and dynamics of interstate support differ significantly among the countries. The largest amount of funds on a bilateral basis was received by Belarus and the Kyrgyz Republic, totaling $3.5 bln. Belarus was provided with funds in two relatively large amounts in 2014–2016, while resources were provided to the Kyrgyz Republic in smaller amounts, but these are stable from year to year, which makes them more predictable for the country.

It should be kept in mind that bilateral financial support may be provided on a confidential basis. For this reason, we consider the indicated volumes of financing as a conservative assessment in order to better understand the special importance of this instrument of financial support for sovereign states.

3. ACCESSIBILITY OF STABILIZATION FUNDS FOR THE COUNTRIES OF THE REGION

To quantify the accessibility of stabilization financing resources for Armenia, Belarus, the Kyrgyz Republic and Tajikistan, we consider the following financing sources in each country:

- FX reserves
- BSAs
- EFSD funds – regional financing arrangements – in the amount of the credit limit for each country
- IMF funds in the amount of the credit limit balance for each country
- Estimates of MDB’s financial support
- Bilateral loans from Russia, calculated based on historical data.

As previously stated, FX reserves are an obvious, reliable, and ready source of stabilization support for the countries. However (and probably for the very reason since depletion of FX reserves would inevitably lead to a BoP crisis), the countries tend to avoid exhausting their international reserves for stabilization support. The priority for the use of financing sources is not a significant factor for excluding FX reserves from overall resource accessibility.

A number of authors believe that BSAs can reduce the need for accumulation of international reserves and therefore become an alternative to lending instruments at the international level, in particular to IMF credit lines (Moreno, 2010; Aizenman, Jinjarak, and Park, 2011; Destais, 2013). For example, swap agreements can be considered as an alternative to the accumulation of FX reserves in the sense that both instruments serve the same basic purpose: in the event of an unforeseen shortage of a particular foreign currency, they can become its source. In other words, there is a similarity in the economic content of BSAs to the formation of FX reserves. At the same time, the conclusion of a BSA, even without its subsequent activation, can help increase financial stability due to the signaling effect, reducing the uncertainty of economic agents in regards to the country’s economic outlook. Unlike the accumulation of reserves, central banks do not bear any costs until the moment of activation of the BSA, while having confidence in the possibility of obtaining foreign currency. Thus, BSAs can partially reduce the precautionary need for accumulation of excess reserves. In Armenia, Belarus, the Kyrgyz Republic and Tajikistan, BSAs do not play an important role due to the absence of such BSAs with central banks of advanced economies and the low degree of these countries’ integration into global financial markets. That is, in fact, we have a situation in which stabilization support from MDBs and bilateral financial support from Russia play a greater role for these countries than does this conventional element of the GFSN.

The advantage of BSAs for the economy is that no macroeconomic conditions need to be met to activate them; therefore, disbursement of funds from one central bank to another may be faster than in the case of the IMF or an RFA.

Only Belarus and China have active BSAs in the EFSD region of operations, totaling about $1 bln. BSAs with Armenia and Tajikistan, first signed in 2015, have now expired.

At the multilateral level, the countries can rely on assistance in stabilization financing from the EFSD and IMF. In order to calculate the available EFSD and IMF funds, countries’ limits in these organizations as well as the actual balance of funds need to be taken into account. Redistribution of limits from one country to another is possible and has repeatedly taken place in the practice of the EFSD. Thus, the EFSD has a residual limit of $5.3 bln for Kazakhstan and Russia, which may constitute a significant amount of reserve financing for recipient countries: Armenia, Belarus, the Kyrgyz Republic and Tajikistan. From this point of view, we suggest that accessibility should be assessed as the range of values between the actual balance and the access limit according to the country quota.

In the case of the IMF, the amount of financing that a member country can receive ('assess limit') is related to a country quota. However, calculating lending capacity of the IMF is not a simplistic exercise. Several factors should be taken into account.

First, there are several channels of IMF lending operations that are normally related to country quota: General Resources Account (GRA), Poverty Reduction and Growth Trust (PRGT). GRA and PRGT are two main channels for IMF financing but there is also a Catastrophe Containment and Relief Trust (CCRT) that is an additional source for PRGT eligible countries. At a certain period of time a country depending on its eligibility and debt limits may request GRA resources, PRGT funds (if limitations on concessionality applied), or blended finance (GRA and PRGT). Each channel has specific access limits. In case of PRGT instruments normal access is lower in comparison to GRA instruments except for rapid instruments (RFI/RCF).

Second, and the most important, when considering response to a request, the IMF primarily relies on balance of payments needs. At the same time, the IMF can mobilize extraordinary amounts on the basis of exceptional access provided the additional safeguards associated with IMF exceptional access are met. Exceptional access can be several times higher than normal and theoretically is not limited. Natural limits may arise in case of large number of requests due to global shocks, however, the IMF membership proved its ability to approach responsively to each global shock by mobilizing additional resources as feasible.

Another general (for all GFSN sources) reservation should be taken in account when pursuing our approach of summarizing numbers of available resources, especially the IMF, the EFSD, and MDBs. It relates to financing approval timelines, instrument maturities, and disbursement schedules. For example, the IMF RCF/RFI resources are (normally) rapidly available both in terms of negotiations, Board of Directors' approval and disbursement schedule. Situation is more complex for the IMF SBA/SCF/EFF/ECF arrangements, and EFSD financial loans where availability of resources may be delayed due to the need to negotiate on policy matrices, introduction of more complex disbursement schedule (tranches) associated to program actions. For bilateral financial support, availability is subject to budget decisions of donor-country and ratification of arrangement on both sides. MDBs may also be constrained by approval of additional allocations, replenishment of special funds (like Asian Development Fund for ADB, IDA for the WBG) if other than shareholder's capital is needed. All these factors create very large variations in timelines of receptions of funds – from weeks to months. In case of urgent needs (funds are needed in the shortest period), it limits instantly available funding.

Overall, authors recognize the comprehensive task of collating various sources of GFSN. In this paper, we attempted to apply a simpler approach to see the big picture during "normal" crisis. That is, we assume that a country may use the remaining limit at the IMF and EFSD based on normal access assuming that the amount may be disbursed in a reasonably short period. However, that leaves the authors unresponsive to a reservation of delayed disbursements due to tranching of support and operational specificities. This argument may cause a lower access limit. On the other side, authors do not include rapid support instruments of the IMF that can partially compensate for above-mentioned simplification.

We also assume that for Tajikistan the IMF access limit should be calculated on the basis of PRGT access due to concessionality requirements. For Kyrgyz Republic, we calculate access limit based on GRA access assuming that a country's blended normal access is limited to GRA normal access (also taking in mind that this may be a simplification, and that there may be no link between GRA and PRGT access). For Belarus and Armenia, our indicative figures rely on IMF GRA access limits.

In our view, these sources of financing can be considered as the most predictable, since institutions have a systematic and regular dialogue with the state, which means that the government can fairly accurately estimate financing conditions and conditionalities required for provision of support.

Table 5 shows data on the accessibility of EFSD and IMF resources by the discussed countries.

Table 5. Accessibility of EFSD and IMF Funds as of 31.12.2019

Country	EFSD				IMF			
	Access limit (% of total funds)	Access limit ($ mln)	Limit balance as of 31.12.2019 ($ mln)	Accessibility assessment (range, $ mln)	Access limit ($ mln)	Normal access limit ($ mln) at 435%	Limit balance as of 31.12.2019 ($ mln)	Accessibility assessment (range, $ mln)
Armenia	13	1211	721	**721–1211**	177.7	773	520.2	**520.2–773**
Republic of Belarus	21	1956.4	0	**0–1956.4**	940.5	4091	4091	**4091**
Kyrgyz Republic	3	279.5	0	**0–279.5**	245	1065.8	925.7	**925.7–1065.8**
Tajikistan	2	186.3	75	**75–186.3**	240	720	689.8	**689.8–720**

Source: authors' calculations.

Note: For Tajikistan, access limits are calculated on the basis of PRGT access. For Kyrgyzstan IMF figures are calculated on the basis of GRA access assuming that a country's blended normal access is limited to GRA normal access.

Note: EFSD has a residual limit of $5.3 bln for Kazakhstan and Russia.

In order to understand accessibility of IMF resources it is also interesting to look at the IMF activities both in terms of time distribution of arrangements (see above) as well as distribution of disbursements (see Table 6). This angle reveals that on a specific 10-year period the IMF actual financing (tranches) is smoothly distributed in time for Armenia and Kyrgyzstan, which is comparable to MDB financing dynamics. Belarus and Tajikistan diverge from this pattern with one spike for the first case and discontinued trend of support for the second example.

Table 6. IMF disbursements by country and source, mln USD

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
SDR/USD rate	0.65	0.63	0.65	0.66	0.63	0.65	0.66	0.66	0.72	0.72	0.72	**n/a**
Armenia	10	7	466	185	114	103	84	36	16	44	22	**1 086**
GRA Purchases	0	0	466	127	55	54	43	36	16	44	22	**863**
PRGT Disb.	10	7	0	57	59	49	40	0	0	0	0	**223**
Belarus	0	0	2 827	669	0	0	0	0	0	0	0	**3 495**
GRA Purchases	0	0	2 827	669	0	0	0	0	0	0	0	**3 495**
Kyrgyzstan	4	42	26	34	30	29	29	14	27	26	26	**288**
PRGT Disb.	4	42	26	34	30	29	29	14	27	26	26	**288**
Tajikistan	0	0	40	60	21	40	0	0	0	0	0	**161**
PRGT Disb.	0	0	40	60	21	40	0	0	0	0	0	**161**
TOTAL	14	50	3 358	947	165	172	113	50	43	70	48	5 029

Source: Authors' calculations on the basis of IMF database (https://www.imf.org/external/np/fin/tad/query.aspx).

Note: Due to rounding, numbers may not add up to totals.

Depending on the scale of negative shocks, the current range of stabilization financing sources could potentially be supplemented with budget support from MDBs, which was the case in 2009–2011, and bilateral financial support from Russia. Having the perception of changes in the level of support from MDBs, we can roughly estimate the possible amounts of financing – i.e., $65.4 mln was provided to Tajikistan in 2009–2011, $165 mln to Armenia, $200 mln to Belarus, and $200 mln to the Kyrgyz Republic.

FX reserves are an important first line of defense, but unless countries have very large buffers of FX reserves they may not be able to run them down too far without undermining market confidence. In the current composition of stabilization resources, FX reserves prevail in these countries. In Armenia and Belarus, however, FX reserves are insufficient to cover three months of imports. International experience shows that countries are not ready to spend down most of their FX reserves. This statement is supported by statistics on the use of FX reserves by Armenia, Belarus, the Kyrgyz Republic and Tajikistan in 2009–2019. Thus, when assessing the accessibility of stabilization sources, we proceed from the assumption that no more than 25% of the total FX reserves could potentially be spent by countries to support their economies during a crisis. Also this assumption comes from the methodology, proposed by (Denbee E, C Jung and F Paternò, 2016) in which the authors assume that usable FX reserves are any in excess of 100% of the ARA metric, subject to the country not allowing their FX reserves to fall by more than a quarter. That is why we decided to use the general assumption of 25% possible reduction of FX reserves in Armenia, Belarus, Kyrgyz Republic and Tajikistan. Table 7 consolidates data on accessible stabilization sources.

Table 7. Analytical Assessment of Indicative Accessibility of Stabilization Financing Sources by Country as of 31.12.2019, $ bln (percentage of GDP in brackets)

Source	Armenia		Belarus		Kyrgyz Republic		Tajikistan	
FX reserves	2.8	0.7 *(25% reduction)*	9.4	2.4 *(25% reduction)*	2.3	0.6 *(25% reduction)*	1.4	0.4 *(25% reduction)*
BSA, active	0		1		0		0	
EFSD range	0.7–1.2		0–2		0–0.3		0.08–0.2	
IMF range	0.5–0.8		4.1		0.9–1.1		1	
MDB	0.2		0.2		0.2		0.1	
Bilateral support	n/a		n/a		n/a		n/a	
Total	**4.2–5** *(30.8–36.7% of GDP)*		**14.7–16.7** *(23.5–26.7% of GDP)*		**3.4–3.9** *(40.2–46.1% of GDP)*		**2.3–2.4** *(28.3–29.6% of GDP)*	
Total, with a 25% reduction in FX reserves	**2.1–2.9** *(15.4–21.2% of GDP)*		**7.7–9.7** *(12.3–15.5% of GDP)*		**1.7–2.2** *(20.1–26% of GDP)*		**1.3–1.4** *(16–17.2% of GDP)*	
Total excluding FX reserves	**1.4–2.2** *(10.3–16.2% of GDP)*		**5.3–7.3** *(8.5–11.7% of GDP)*		**1.1–1.6** *(13–18.9% of GDP)*		**0.9–1** *(11–12.3% of GDP)*	

Source: authors' calculations.

Note: As indicated in the text, this is a conservative estimate (based on the low threshold) due to the de facto exclusion of bilateral support, for which only limited data are available.

The calculations provided in Table 7 do not comprise data for bilateral support, so the final total should be viewed as a conservative estimate. Nevertheless, we confirm very significant volumes of bilateral support, most of it coming from Russia, and its important place in the stabilization financing "balance".

However, two other approaches – with national reserves decreasing by 25% and not taking into account the national reserves at all – are more practical. Reserves prevail in the current total composition of stabilization resources. As historical experience suggests, FX reserves are primarily used to lower exchange-rate volatility. During 2009–2019 and among our four countries, the maximum decrease constituted 33.9% (Armenia in 2014). A massive decrease of reserves sends a strong negative signal, leads to loss of trust on the part of economic agents, and often makes a crisis even worse. The set of estimates with a decrease of reserves by 25% is the following: $2.1-$2.9 bln for Armenia, $7.7–9.7 for Belarus, $1.7–2.2 bln for the Kyrgyz Republic, and $1.3–1.4 bln for Tajikistan. The next set of estimates, fully excluding reserves (that is, external stabilization financing), is naturally smaller: $1.4–2.2 bln for Armenia, $5.3–7.3 for Belarus, $1.1–1.6 bln for the Kyrgyz Republic, and $0.9–1 bln for Tajikistan.

The current configuration of stabilization financing sources also involves certain risks. BSAs have low predictability and reliability for small, open, emerging economies. Accumulation of FX reserves entails high costs. Requests for financial support from an RFA and the IMF require commitment to implement a sensitive matrix of structural reforms (Table 8).

Table 8. Characteristics of Accessibility of Stabilization Financing Sources for EFSD Borrowing Countries

Element	Conditionality	Accessibility and factors that determine it
FX reserves	No	Mainly low level of reserves, exchange rate regime and international reserve management strategy
BSA	No	PBOC swap lines serve primarily the trade enhancing purpose; no direct relevance to the stabilization function.
EFSD	Yes	Commitment to implement the reform matrix
MDB	Yes	Commitment to implement the reform matrix; uncertainty of support limits, approval of macroeconomic conditions by IMF
IMF	Yes	IMF quota, commitment to implement the reform matrix
Bilateral financial support	No	Uncertainty of support associated with the political environment and priorities of the donor countries; in some cases, conditionality may be applied.

Source: authors' analysis inspired by (IMF 2016).

In assessing potential amounts of stabilization support, it is necessary to take into account the level of coordination among institutions, the coverage and predictability of financing sources, the specificity of instruments, the depth of the crisis and the nature of the shock.

The range of accessible instruments may be further limited by the macroeconomic policy pursued in the country and the nature of negative external shocks (for example, BSAs are not fully effective in protracted crises).

The depth of the crisis should also be taken into account. Depending on its depth, on the one hand, more financing and a range of instruments may be available to the country. On the other hand, the government may undertake more substantial reforms to obtain critically needed resources. For example, in the event of a shallow crisis (or any threat of a crisis), the state will seek untied grant support or BSAs, while in the event of a severe economic shock, it will be forced to turn to institutions that provide repayment financing in exchange for reforms. Practice shows that multilateral and bilateral donors can mobilize large amounts of financing in the event of a deeper crisis.

CONCLUSION

This study analyzed the data and accessibility of the main stabilization sources in the EFSD borrowing countries – Armenia, Belarus, the Kyrgyz Republic and Tajikistan – during the period of the Fund's operation, that is, since 2009. The sources of financing were considered in the context of the Global Financial Safety Net concept, which includes FX reserves, central bank BSAs, the International Monetary Fund, and regional financing arrangements.

The authors included in the scope of the study multilateral development banks and bilateral financial support as significant participants to stabilization support. Although in the strict sense, they are not stabilization mechanisms, in our opinion they de facto play such a role in the EFSD region of operations.

Within the observed the period of time (2009–2019), the countries used the entire available stabilization toolkit. The analysis of historical data helped to identify the range for possible financial support, and expanded our understanding of program synchronization and concentration of sources by recipients. Finally, the study reiterates the importance of donor coordination for timely and effective support, given the heterogeneity of donors' tools and requirements.

The authors encountered certain difficulties in collecting statistical data on existing BSAs and their use. As this instrument is becoming more widespread, we believe it is necessary to take to a comprehensive expert level discussion on the issue of increased data accessibility and greater transparency in entering into and managing BSAs between central banks. This will help to provide more accurate assessments of a country's accessible financial resources, which can be used to withstand crises.

The parameters of conditionality of different institutions and policy recommendations for the period under consideration require additional comparative analysis. This will enable better assessment of institutions' coordination capacity and of the accessibility of resources for the recipient, given the complexity of reforms proposed by donors.

In this working paper, we have attempted to answer the question concerning available sources of stabilization financing and their overall capacity. We have suggested to go beyond the "traditional" understanding of the GFSN and account for a part of MDB financing and the bilateral support aiming at macroeconomic stabilization. In the next papers, we plan to quantitatively answer the question of the sufficiency of available resources. To achieve this goal, we stress test various scenarios of economic shocks and the needed financial resources to withstand them and maintain macroeconomic stability in Armenia, Belarus, the Kyrgyz Republic and Tajikistan.

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EFSD WP/19/1 (RU/EN)

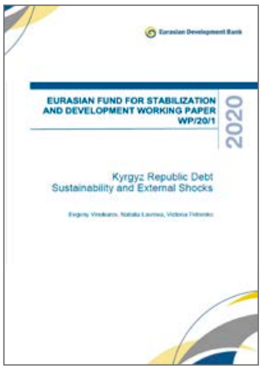
The Eurasian Fund for Stabilization and Development: A Regional Financing Arrangement and Its Place in the Global Financial Safety Net

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.

EFSD WP/19/2 (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.



EFSD WP/20/1 (RU/EN)

Kyrgyz Republic Debt Sustainability and External Shocks

This paper contains a methodological and empirical analysis of the debt sustainability of Kyrgyzstan. The paper assesses the effect of various types of shocks on the country's debt sustainability.

Eurasian Development Bank

Evgeny Vinokurov, Artem Levenkov, Gennady Vasiliev

Global Financial Safety Net in Eurasia: Accessibility of Macroeconomic Stabilization Financing in Armenia, Belarus, Kyrgyzstan, and Tajikistan

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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