

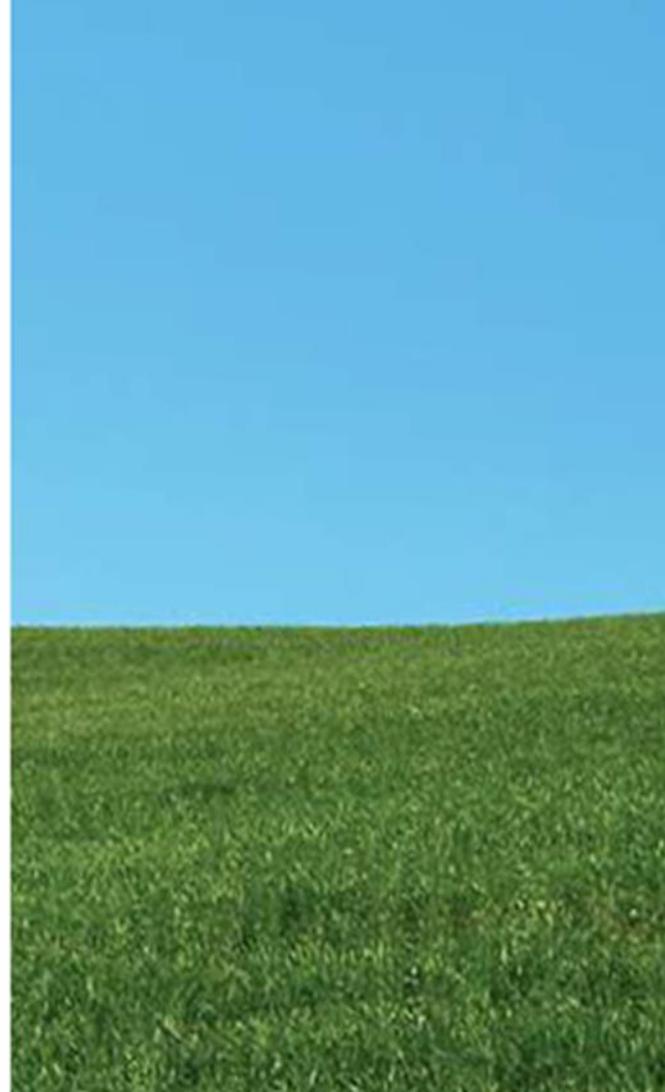


Eurasian Development Bank

Eurasian fund for stabilization and
development

Presentation of Working paper WP/21/1:
«Evolution of Tools and
Approaches within the Enlarged
Global Financial Safety Net in
Response to the COVID-19 Crisis»

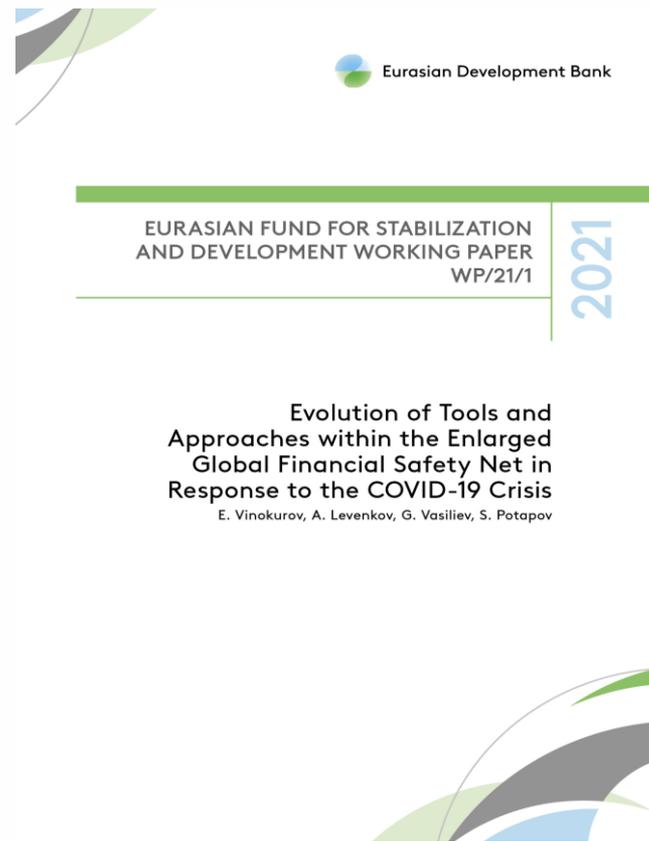
EFSD Chief economist group
October 2021



EFSD Working Papers reflect the Fund's research on global, regional, and country economic trends, economic modelling, macroeconomic analysis, sectoral analysis, global financial architecture, and other issues.

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The Fund promotes the dissemination of knowledge in the EFSD member states, primarily through research, publications, and public events. High-quality research is an important decision support tool for the Fund aiming to achieve its main goal: ensure economic and financial stability for member countries.





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:

- 1) presents an analysis of Global Financial Safety Net response globally;
- 2) presents an analysis of Global Financial Safety Net response in EFSD regions of operations;
- 3) identifies key trends in the functioning of the Global Financial Safety Net and the challenges ahead.





The GFSN institutions met the massive financing needs caused by the COVID-19 pandemic

On the global level

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

Figure 1. IMF arrangements, USD millions



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

* As of 1 June, 2021

On the regional level

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.

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1. Financial credits

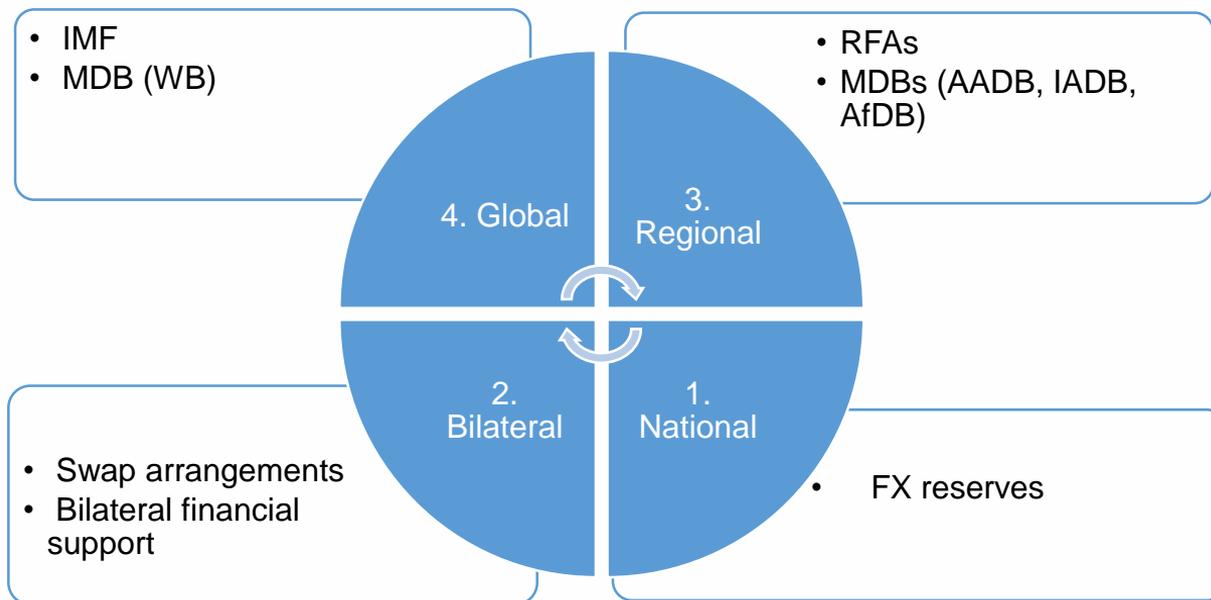
- The EFSD Council approved the provision of **three financial loans of \$650 million** to support government programmes to overcome the negative consequences of the COVID-19 pandemic on the economy, population, and financial and social sectors:
- in Belarus (**\$500 million**),
- in Kyrgyz Republic (**\$100 million**)
- in Tajikistan (**\$50 million**)

2. Grants in healthcare sector

- 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 response to the threats posed by the coronavirus.

We also expand the GFSN by two additional elements: multilateral development banks and bilateral financial support for macroeconomic stabilization purposes

The concept of an enlarged GFSN, namely its expansion by two additional elements: multilateral development banks and bilateral financial support (Vinokurov and Levenkov, 2021). Their support proved to be an important channel of stabilization financing during the pandemic.

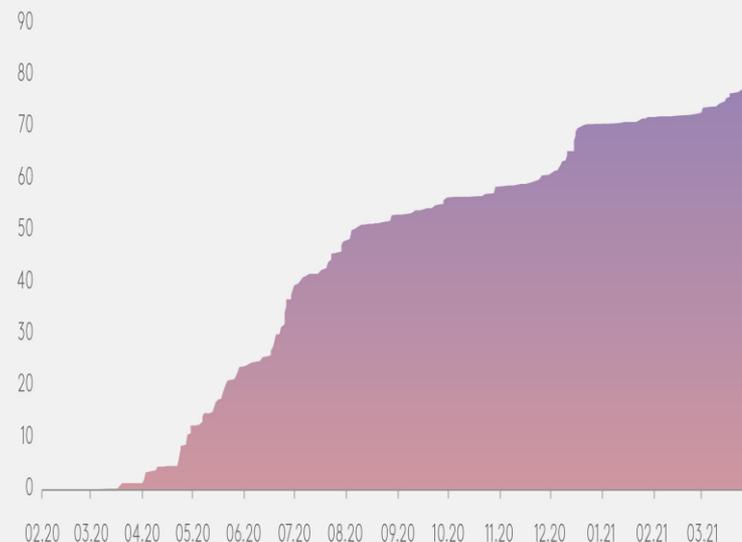


Significant amounts of MDB budget support demonstrate its high importance

MDBs have committed resources of around \$150 billion, of which approximately \$80 billion was disbursed as of March 2021,



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.



Bilateral financial support was another important source of stabilization financing

On global level

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).



In EFSD region

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:

- The Government of the Russian Federation also approved an agreement on the provision of a loan to Belarus for \$1 billion in 2020–21;
- Russia allocated \$20 million to the Kyrgyz Republic to cover the budget gap. In May 2021, a similar grant agreement was signed in the amount of \$10 million to cover the budget deficit.

Armenia, Belarus, Kyrgyzstan, and Tajikistan have drawn on almost all layers of the GFSN, except bilateral swap arrangements

The funds disbursed from all sources **in 2020 totalled at least \$2.6 billion**, from which \$650 mln. were approved **by EFSD, almost 25% of the whole package.**

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.

From the institutional perspective, **the IMF and EFSD play leading roles in the region as sources of stabilization financing.** At the same time, in addition to the EFSD and the IMF, EFSD member countries actively used **anti-crisis financing from MDBs and received a significant amount of bilateral support from Russia.**



We identify four main features in GFSN functioning during 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.



MDBs acting as a part of the GFSN may have positive effect but may also raise new considerations.

Benefits

More resources for crisis response

Solution to the problem of uneven coverage

Risks

Blurring IMF/RFA mandate

Diversion MDBs resources from the development agenda

Facility shopping



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.



International cooperation has been a **crucial component of the COVID-19 response**. IFIs **approved \$262.4 billion in COVID-19-related support** through Q1 2021, according to the CSIS Economics Program

IMF **reasserts 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**.

EFSD recipient countries have drawn on almost all layers of the GFSN, except bilateral swap arrangements, to mitigate the impact of the COVID-19 crisis. The funds disbursed from all sources in 2020 totalled at **least \$2.6 billion, from which \$650 mln. were approved by EFSD, almost 25% of the whole package**.

From the institutional perspective, **the IMF and EFSD play leading roles in the region as sources of stabilization financing**. At the same time, in addition to the EFSD and the IMF, EFSD member countries actively used anti-crisis financing from MDBs and received a significant amount of bilateral support from Russia.



Thank you for your attention!