



# COVID-19

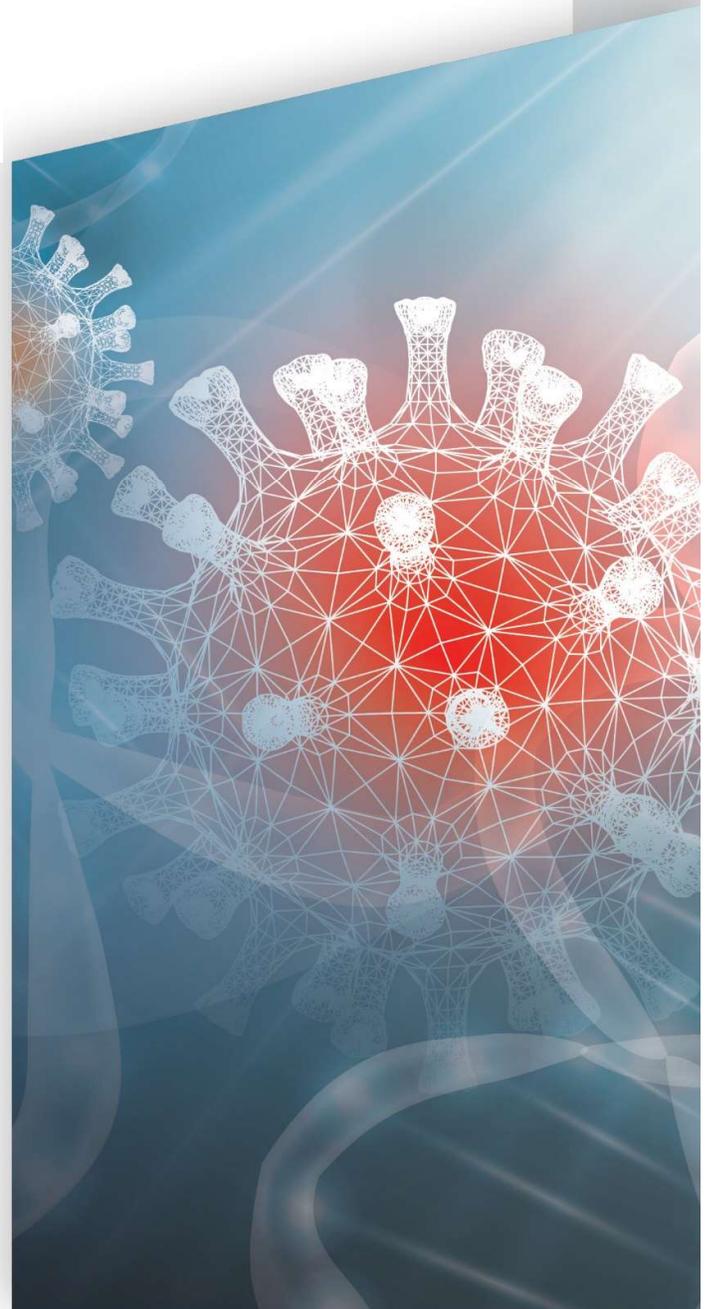
## Response and Recovery

### Mobilizing financial resources for development

DA-COVID-19 project led by Debt and Development Finance Branch, Division on Globalization and Development Strategies (DDFB/DGDS)



UNITED NATIONS  
UNCTAD

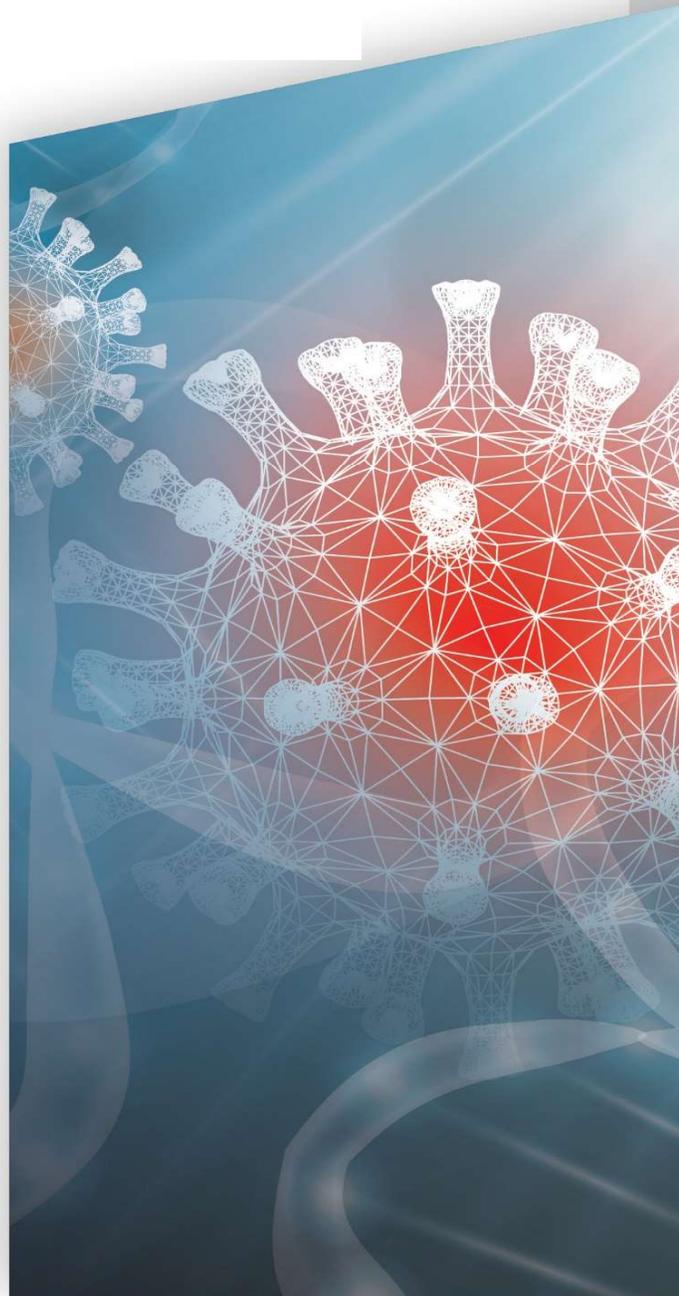


# No One Left Behind? COVID-19 and the Shortcomings of the Global Financial Safety Net for low- and middle-income countries

APRIL 2022

**Laurissa Mühlich**  
**Marina Zucker-Marques**  
**Barbara Fritz**  
**William N. Kring**

*This document has not been formally  
edited and does not necessarily represent  
the views of the UN, UNCTAD, ECA,  
ESCAP or ECLAC*



## About the COVID-19 Response and Recovery project

This paper is an output from the project “Response and Recovery: Mobilising financial resources for development in the time of COVID-19”, which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

## Summary

In this paper, we summarize the findings of the Freie Universität Berlin / Boston University / UNCTAD Global Financial Safety Net (GFSN) tracker on crisis finance since the onset of the COVID-19 pandemic. The GFSN is commonly known as the set of institutions on the global, regional and bilateral level that provide balance of payments finance to countries in temporary financial distress. We show that, when grouping the countries in different income classes, provision of liquidity is highly unequal. Essentially, high-income countries are insured by the GFSN more adequately than low-income countries. At the same time, we find that the dynamics of liquidity and solvency risk similarly differ between different income levels. The group of low and middle-income countries is exposed to an increasing risk of rising debt service payments that is likely to rise further over the course of upcoming phases of the COVID-19 pandemic and recovery.

We find that the current GFSN does not allow support for all income country groups to respond adequately to a global liquidity crisis, as demonstrated by the COVID-19 pandemic. While the liquidity needs of low and middle-income countries (LICs and MICs) are not catered for by the GFSN to the same extent as are other income groups, especially advanced high-income countries (HICs) are awash with third-party crisis financial resources in relative terms, with upper MICs in a middle position.

For our analysis, we collected data for conditional and unconditional emergency lending by the International Monetary Fund (IMF), regional financial arrangements (RFAs), and bilateral currency swap arrangements between central banks during the pandemic and provided them in the [GFSN tracker](#); Kring et al. 2021), an interactive database compiled by the Institute for Latin American Studies at Freie Universität Berlin (LAI) and the Global Development Policy Center at Boston University (GDP Center), and funded by the UNCTAD.

The analysis of the GFSN response during the COVID-19 pandemic highlights three main aspects of the GFSN: first, the GFSN is hardly “global”. Rather, the higher a country’s income level, the more diverse the crisis insurance. On the one side, advanced HICs, and to a lower degree also emerging HICs, can widely draw on currency swaps, a convenient, quick and unconditional option of liquidity access in hard currency. On the other side, especially LICs and lower MICs had to resort in much higher degree to standard conditional IMF lending. This is especially problematic as low and middle-income countries are facing slower economic recovery from COVID-19, and are confronted with increasing debt burdens.

Second, regional reserve funds so far play a marginal role in the pandemic. Despite having grown significantly as a source for emergency financing at the regional level, and despite the intensive use of some of these funds in the past, they have been demanded only selectively in the current crisis.

Third, the GFSN tracker reveals that the IMF is no longer the single most important crisis prevention and backstop source for all income groups. This is mostly due to a preference for bilateral central bank currency swaps by those countries that can get access to them. Swaps are offered especially by the US Federal Reserve (Fed) and the People’s Bank of China (PBOC), but also by an increasing number of other central banks of advanced and emerging-market economies. Bilateral agreements do not only

reinforce inequality in the GFSN, but also risk side-lining multilateral institutions both at the global and the regional level, in particular for those higher income groups that can choose where to obtain emergency liquidity.

Addressing a temporary liquidity crisis quickly and comprehensively can prevent it from transforming into a solvency crisis. We argue that inequality in the GFSN is a potential source of solvency problems for countries that have less choice and access to voluminous disbursement of emergency liquidity with adequate policy conditionality.

## 1. Introduction

The start of 2022 suggests that the way from pandemic to endemic is likely to come with significant temporary liquidity needs, especially for lower income groups of emerging-market economies (EME) and developing countries. In its latest [Global Economic Prospects](#) report, the World Bank forecasts that growth in EMEs will drop from 6.3 per cent in 2021 to 4.6 per cent in 2022 and 4.4 per cent in 2023. The report notes that advanced economies' output and investment will return to pre-pandemic levels next year, while EME output and investment will remain below pre-pandemic levels through 2023. "By 2023, all advanced economies will have fully recovered their output," the report continues, "but output in emerging and developing economies will remain 4 per cent below its pre-pandemic trend." (World Bank, 2022)

The macro-fiscal prospects for low-income countries (LICs)<sup>1</sup> and lower and upper-middle-income countries (MICs) to finance the fight against the virus are tightening. At the same time, domestic financing needs are likely to persist and jeopardize economic recovery. Overall, HICs are much better equipped to buffer their economies from the COVID-19 related crisis than LICs and MICs (UNCTAD 2020). Estimates by the IMF (2021a) – as of June 2021 – suggest that, on average, additional fiscal response to the COVID-19 crisis in HICs has amounted to 17.3 per cent of GDP, whereas in LICs, additional expenditure amounted to 2 per cent of GDP, and EME 4.1 per cent of GDP (China 4.8 per cent of GDP) to support economic recovery.

At the same time, for LICs and MICs, debt distress is not likely to reduce. New variants will probably put economic recovery into question, and comprehensive measures to restructure debt – including private and public debtors – are not in sight. The G20 Debt Service Suspension Initiative (DSSI) expired at the end of 2021 and was woefully inadequate relative to the looming sovereign debt crises in LICs and MICs. In December 2021, the IMF openly criticized the DSSI for its early termination, but also the slow implementation, scope and coverage of the Common Framework for Debt Treatment Beyond the DSSI, highlighting that LICs and MICs are poised to face challenges in servicing their debt in 2022 (IMF 2021b). Among others, broader accessibility is required for further countries under debt distress, particularly MICs, and private debtors need to be brought to the table to address collective action problems. Continued economic recovery in advanced economies (AE) is likely to lead to interest rate hikes, triggering capital outflows and exchange rate depreciation in both LICs and MICs. Exchange rate

---

<sup>1</sup> The income group classifications refer to World Bank country group classification as of 2021 (<https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>). The classification of developing, emerging and advanced economies refers to IMF country classification (<https://www.imf.org/external/pubs/ft/weo/data/changes.htm>). The income group of HICs includes emerging as well as advanced economies. The income groups of LICs and MICs is composed of developing and emerging economies.

depreciation could balloon external debt in domestic currency and exacerbate economic divergence between the advanced economies and China, and the rest of the world (IMF 2021d).

The GFSN comprises the set of institutions, arrangements and agreements on the global, regional and bilateral level that provide temporary balance of payments finance to countries in temporary financial distress. While the IMF was the sole creditor after World War II, the GFSN has expanded tremendously with an accelerating dynamic since the 2008/2009 global financial crisis (GFC). A rising number of regional funds have been founded over time in addition to the IMF (Grabel 2019; Kring and Gallagher 2019; Mühlich and Fritz 2021). Moreover, national central banks have mobilized huge volumes of bilateral temporary liquidity injection through currency swap agreements.

Yet, the tremendous increase in GFSN resources has been accompanied by deepening structural and geographical inequalities in the provision of crisis finance through the GFSN. The COVID-19 pandemic has brought to light not only the possibility of surprisingly voluminous resources of crisis finance being raised by some but also the inequities that exist when other countries attempt to borrow temporary liquidity to prevent or backstop a sudden balance of payments problem.

## 2. The Global Financial Safety Net: Growing in volume and complexity

To a large extent unnoticed, the GFSN has grown from one single global institution, the IMF, into a large and complex ecosystem of heterogeneous actors.

The key elements of the GFSN included in the GFSN tracker<sup>2,3</sup> are conditional and unconditional emergency lending by the International Monetary Fund (IMF), regional financial arrangements (RFAs), and bilateral currency swap arrangements between central banks<sup>4</sup>. The financing available from the

---

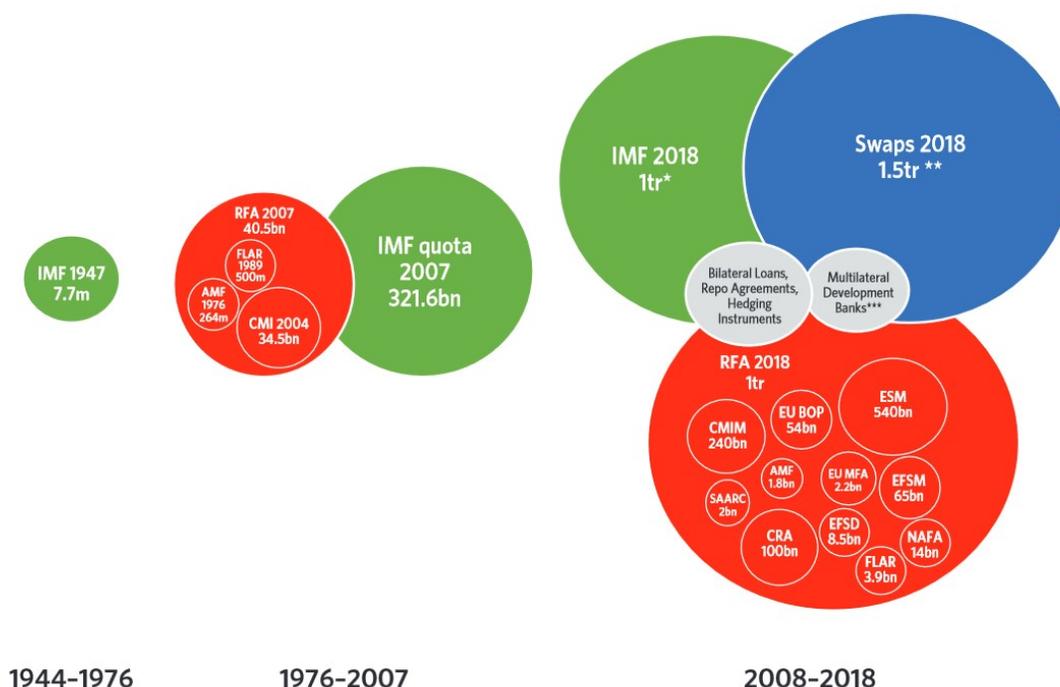
<sup>2</sup> In contrast to the literature, we argue that foreign exchange reserves are national resources in contrast to GFSN resources that are provided from non-national bilateral, regional or global institutions or arrangements: Theoretically, in all types of balance-of-payments crises in EMDEs, the third-party actor must come from outside the country and provide timely, voluminous and smoothly-decided conditionality and decisive action to combat a crisis (Obstfeld 1996). We argue that for crisis prevention and resolution, the fact that crisis finance is provided from outside the country by non-market actors is the major distinction between the GFSN and national foreign exchange reserves.

<sup>3</sup> Multilateral Development Bank's temporarily set up short-term balance of payments finance facilities have not been tracked in the GFSN tracker. As to our knowledge, no systematized overview on short term lending of multilateral development banks exists (an exception is Grabel 2019). Yet, several have established credit lines for emergency lending during the GFC and again since the onset of the COVID-19 pandemic, such as the Asian Development Bank Countercyclical Support Facility or the Interamerican Development Bank's Special Development Lending. At the beginning of to the COVID-19 pandemic in 2020, multilateral development banks announced temporary short-term liquidity access between USD 1bn (European Bank for Reconstruction and Development), USD 6.5bn (Asian Development Bank) and USD 8bn emergency finance by the International Finance Corporation under World Bank's COVID-19 lending of about USD 160bn. Vinokurov and Levenkov (2021) point to the growing importance of short-term crisis finance provided by multilateral development banks in the GFSN that would need to be systematically accounted for when analyzing the GFSN.

<sup>4</sup> Central bank currency swaps are contracts to exchange currencies between two central banks. Swaps are flexible arrangements, and specific contracts vary in terms of tenure, volume, the currency of denomination, interest rates, purpose, and reciprocity. Central banks with overseas partners' swap agreements can offer domestic financial institutions foreign currency liquidity when market conditions worsen. By withdrawing swap agreements, central banks can support the maintenance of international trade and finance, curb exchange rate volatility and hence contribute to financial stability. Active swap agreements entail a reassurance for markets, central banks, and national treasuries alike as a country's additional liquidity backstop, with the advantage of

GFSN has reached roughly USD 3.7 trillion or about 4.5 per cent of global GDP – at its peak since the outbreak of the COVID-19 pandemic in April 2021. The current volume of the GFSN is more than double that of the 2018 volume (USD 3.5 trillion in 2018, and 4 per cent of 2018 GDP). While this volume represents a more than tenfold increase of available short-term liquidity compared to the decades before the GFC (Figure 1), it is still less than one per cent of the global financial assets in the same year (FSB 2020).

Figure 1 Institutions and Arrangements of the Global Financial Safety Net (in USD)



Source: Mühlich et al. 2020.

Notes: AMF – Arab Monetary Fund; FLAR – Latin American Reserve Fund (according to its Spanish acronym); CRA – Contingent Reserve Arrangement of the New Development Bank; CMIM – Chiang Mai Initiative Multilateralization; SAARC – South Asian Association for Regional Cooperation Swap Arrangement; EFSD – Eurasian Fund for Stabilization and Development; NAFA – North American Framework Agreement; ESM – European Stability Mechanism; EFSM – European Financial Stabilization Mechanism; EU BOP – EU Balance of Payments Assistance; EU MFA – EU Macro Financial Assistance. Hong Kong and Palestine are included here as RFA member countries.

being costless to acquire and maintain (when not withdrawn) (UNCTAD, 2021). Central bank currency swaps commonly have a natural receiver that is usually the country with the comparatively lower GDP level.

**Box 1: Sizing the GFSN**

*Assessing the precise volume of the elements of the GFSN requires a number of decisions to be made, especially regarding an estimate of central bank currency swaps.*

*In order to estimate the potential lending capacity of the GFSN (as shown in Figure 1), we calculate the lending capacity per country for a loan or swap maturity of three years.*

*For RFAs, lending capacity represents the maximum loan amount available for each member country as an estimate of the crisis response capacity of each regional financial arrangement for three years.*

*For the IMF, the lending capacity sums up to USD 1 trillion, according to IMF (2021c). Total resources stated by the IMF is SDR 973bn with a lending capacity of SDR 707bn. The lending capacity based on paid-in quota under normal access (maturity of one year of 145% of paid in quota) sums up to about USD 1 trillion).*

*Currency swaps are the most complex instrument to assess due to their idiosyncratic logic and little publicly available information on their contracts. Even if formally always agreed on a bilateral level between two central banks, currency swap agreements de facto can be of reciprocal or unilateral nature, depending on whether only one party can obtain liquidity or if monetary authorities mutually assist each other. Central bank currency swaps commonly have a natural receiver that is usually the country with a comparatively lower GDP level.*

*We apply this assumption to the data compilation as follows: We adopt the IMF country classification which distinguishes between AE and EMDE. Currency swaps between countries of the same country group categorization are counted twice to capture the reciprocity of the swap agreements. Currency swaps across different country groups are counted once since we assume them to be unilateral instead of reciprocal. We hence assume EMDE to be the recipient of liquidity of a swap with advanced economies. Swap agreements from the USA and China are exceptions to the rule. Given the dollar's role as the key currency in the international monetary system, we assume it would not require external liquidity; therefore, we count the Fed swap agreements once. Although China is classified as EMDEs, we consider China's contracts with AE reciprocal, while contracts between China and other EMDEs are unilateral. This methodological choice is based on the low chances of China requesting liquidity support from other EMDEs and bearing in mind the specific role of the PBOC swaps in promoting renminbi internationalization.*

*The Fed, ECB, Bank of England (BoE), Bank of Japan (BOJ), Swiss National Bank (SNB), Bank of Canada (BOC) have a network of permanent and unlimited swap lines (see Mühlich et al. 2020). The estimation of the volume of unlimited bilateral currency swaps is based on Denbee et al. (2016) who suggest including previously activated amounts of those currency swaps as an estimate of their volume.*

*See also Perks et al. (2021:19) who apply a similar understanding to assess reciprocity: "We define a country (either an EM or developing economy) as the recipient country of a BSL if China or an AE is the counterpart of the BSL."*

The GFSN tracker focuses on the key GFSN elements and their lending activities since the onset of the COVID-19 crisis in early 2020 (see also Mühlich et al. 2020, 2021). Since then, the most dynamically expanding element of the GFSN has been bilateral central bank currency swap arrangements. While the IMF (2021c) upheld its lending capacity of about USD 1 trillion, the lending capacity of the RFAs also remained by and large the same of about USD 1 trillion since 2018. At the same time, the GFSN

tracker data suggest that a volume of USD 1.7 trillion was available in bilateral currency swaps at its peak in April 2021. This figure was about USD 1.1 trillion before the pandemic hit (December 2019).

### Inequalities in the GFSN between income groups of countries

Despite its remarkable growth, GFSN coverage for individual countries varies. The literature points out the unevenness of the GFSN and the resulting differences in crisis response capacity of the GFSN for different country groups (Scheubel and Stracca 2019). Consensus exists that the unevenness of the GFSN has aggravated with the emergence of central bank currency swaps alongside regional funds and the IMF (Perks et al. 2021, Inacu et al. 2021). However, to date, economic literature dismisses the structural nature of uneven access to GFSN elements and its consequences regarding liquidity and solvency issues in non-systemically relevant countries, such as predominantly LICs, lower-MICs and selected upper-MICs and HICs.

While the GFSN has more lending capacity to address the COVID-19 pandemic than during the GFC, it falls short of providing equal choice and volume of crisis finance to each country, country group or region. The GFSN tracker (Kring et al. 2021) shows a divide mainly between LICs and lower-MICs on the one hand and upper-MICs and HICs on the other hand. Mühlich et al. 2020 found that out of the total GFSN size of USD 3.5 trillion in 2018, about three quarters – or USD 2.5 trillion – were designated to advanced economies.

Further efforts to increase total lending volume are necessary, particularly for EMDE with low, lower, and upper-middle-income levels. Even before the pandemic hit, this was to be addressed to ameliorate access to crisis finance for those country groups (see Figure 2). After the onset of the pandemic, at the end of March 2020, IMF director Kristalina Georgieva (2020) estimated the finance needs of EME to sum up to at least USD 2.5 trillion, for which their own international reserves and domestic resources would not be sufficient. Together with increasing debt service payments since the beginning of the pandemic (see section 4), acute finance requirements to safeguard the economies during the pandemic become more urgent.

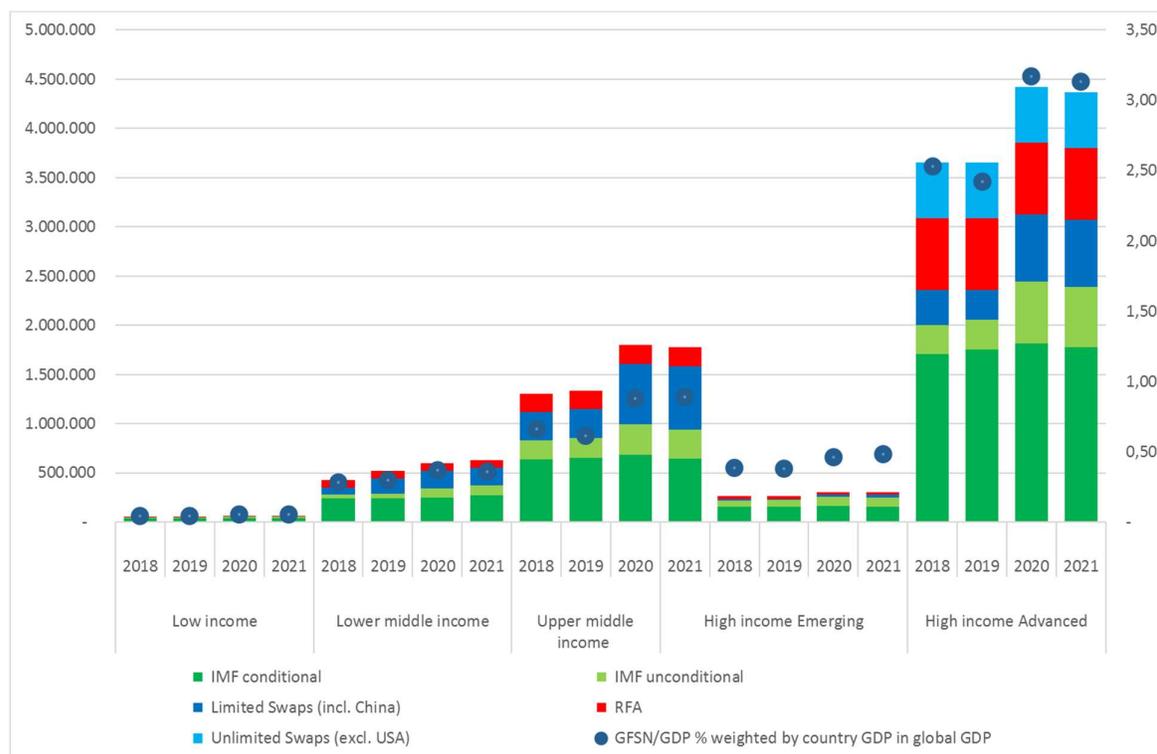
On the one hand, LICs and some lower-MICs are systematically excluded from the most voluminous crisis finance elements, such as new regional funds or central bank currency swaps. On the other hand, selected upper-MICs and HICs play a role in expanding financially well-equipped regional funds and central bank swap lines that have become unlimited in terms of volume and time for the reserve currency emitting central banks. These inequalities in GFSN coverage could not entirely be addressed by IMF action to temporary ease and increase access limits of unconditional facilities (such as Rapid Finance Instrument (RFI) and Rapid Credit Facility (RCF)) until June 2023. LICs and lower-MICs have temporary unconditional crisis finance which are not comparable to the large pre-qualifying facilities that upper MICs commonly have access to (until March 2021, Chile, Colombia, Mexico, Peru and Poland—have had FCL arrangements; until May, Rep. of North Macedonia, Morocco, and Panama have used the PLL).

A differentiation of lending capacity of the different GFSN elements by income group suggests that the sheer GFSN size and dynamic growth conceal the unbalanced nature of GFSN expansion. While HICs have access to an expanding and diversified crisis finance network, this is not the case for most LICs and MICs. Figure 2 displays the liquidity provision of the GFSN for different groups of countries, showing that since the onset of the COVID-19 crisis, the accessible emergency finance volume

remained rather low for LICs and lower-MICs while it increased for upper-MICs and for advanced HICs.<sup>5</sup> The increase in emergency finance volume that is accessible almost exclusively for these two groups is predominantly driven by central bank swap activities.

*Figure 2 GFSN lending capacity by income groups*

(2018-2021; in USD million; left scale USD million; right scale: percent of GDP; weighted GDP averages)



Source: Kring et al. 2021, <https://gfsntracker.com/>.

Notes: World Bank income group classification. To differentiate HICs that are advanced economies from those that are emerging markets we additionally use IMF country group classification of emerging markets and advanced economies (this applies for all graphs). Central bank currency swaps for 2018, 2019 only include arrangements that were newly agreed in these years, renewed contracts are not included. IMF lending capacity is estimated by the multiple of the country quota that a country can access to borrow for three years; RFA's lending capacity is calculated by the respective fund's stated loanable funds for three years per country. Estimate of unlimited central bank currency swaps see Box 1 and Mühlich et al. 2020. The estimates of IMF and RFAs lending capacity are based on exchange rates as of April 2018, 2019 for the years 2018, 2019 and on average annual exchange rates for 2020, 2021 for 2020, 2021. For central bank currency, we consider the maximum volume available in the respective year. For local currency swap agreements, we consider a 1-year average to the dollar. For 2021, we used 2020 GDP data. On estimation of unlimited swaps and on reciprocity of currency swap arrangements see Box 1.

A country's income level is likely to be only one among many other explanatory factors for the inequality in GFSN access and lending capacity. As regards most regional funds, geographic location is a key feature of accessibility and availability of crisis finance (Mühlich and Fritz 2021). The

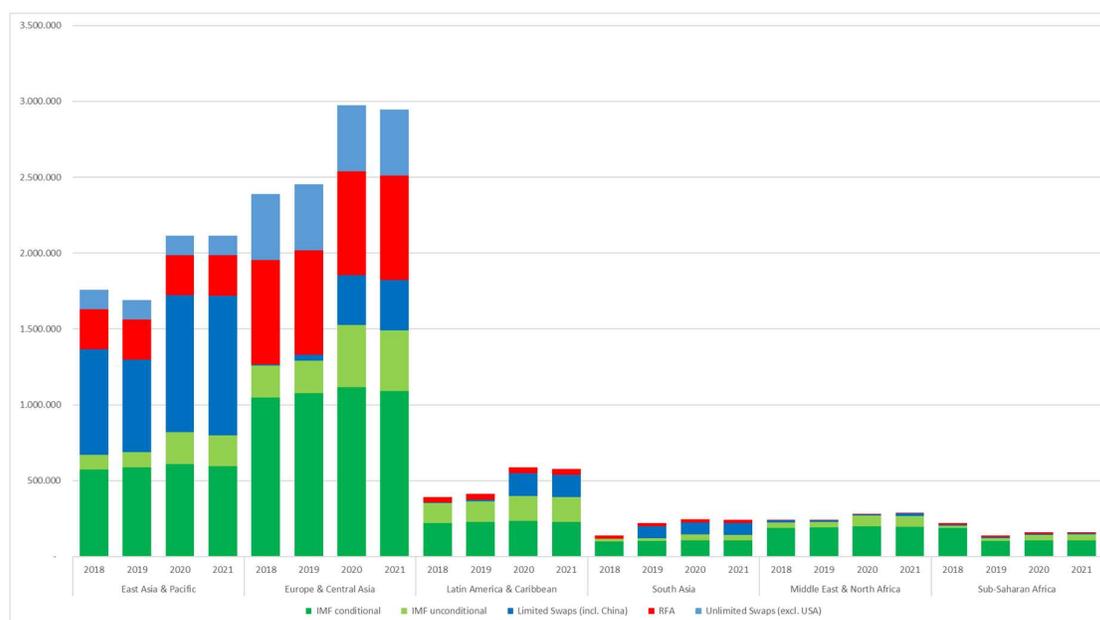
<sup>5</sup> The group of HICs that are classified as EME contains 19 countries composed of small island developing states, oil producing countries of the Arab region, and small central European countries. The group of advanced HICs in contrast contains almost twice as many countries composed of reserve currency issuing economies and the largest economies worldwide. Hence the economic difference between those two country groups is large and contributes to the enormous difference of GFSN resources available for those country groups.

geographic inequalities of the GFSN can be seen in the exclusion of African and in particular Sub-Saharan countries from regional or bilateral GFSN resources as well as the exclusion of parts of South America. The geographical skewness of the GFSN does not only relate to RFAs coverage. It is interlinked with the expanding currency swap network that has a strong geostrategic dimension. As regards bilateral currency swaps, literature has identified financial and trade ties (Aizenman et al. 2021 on Fed swaps, Garcia Herrero and Xia 2013 on PBOC swaps) as well as geopolitical concerns of swap offering countries (Sahasrabudde 2019) to be associated with whether a country is selected as a bilateral currency swap partner.<sup>6</sup> This widely excludes Sub-Saharan African countries from central bank currency swaps.

### Regional inequalities

When examined by geographic regions, unequal access and breadth of options for crisis finance in the GFSN can be clearly seen. In relative terms, Europe and East Asia have voluminous GFSN elements to choose from, while especially Africa, South Asia and also Latin America, to a certain degree, have much less access to unconditional and quickly disbursable swaps and so have to rely much more on standard conditional IMF lending facilities.

*Figure 3 GFSN Lending Capacity of the GFSN by geographic region (2018-2021; in USD million, for three years)*



Source: <https://gfsntracker.com/>.

Notes: see Figure 2, and Box 1. World bank regional classification.

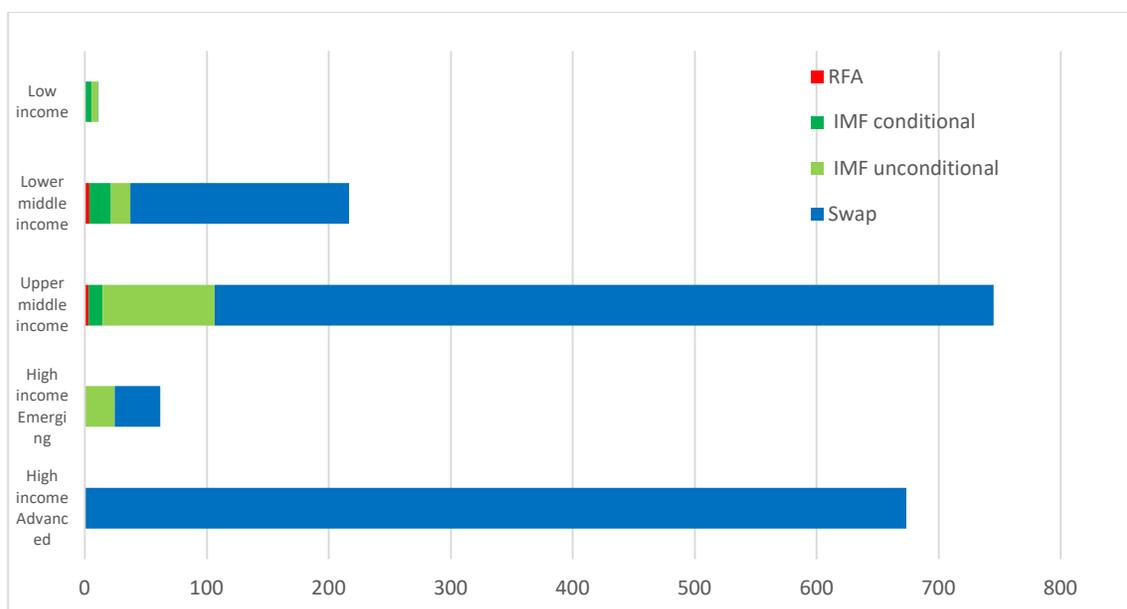
<sup>6</sup> Geopolitical interests articulate themselves for example in dedicating a swap agreement to facilitate international trade or in the denomination of the swapped currencies. PBOC swap agreements are usually cited as an example, but, among others, Turkey, Sri Lanka, Pakistan, Malaysia, Iraq, Iran, Bangladesh, Indonesia, and Thailand also include "trade" clauses in swap agreements.

### 3. GFSN financing during COVID-19

#### Inequalities between income groups

Figures 4a to 4c shows that the above mentioned GFSN liquidity provision during COVID-19 has been mainly provided to upper-MICs and HICs. In particular, when examining the sources of this liquidity provision, GFSN tracker data (Kring et al. 2021) suggest that since the beginning of 2020, an average LIC or lower-MIC has borrowed less than 1 per cent of GDP from unconditional lending facilities of the IMF whereas an average emerging-market HIC borrowed about 6 per cent of GDP. For an average upper-MIC, unconditional IMF lending since the onset of the COVID-19 pandemic amounted to about 3.3 per cent of GDP (see Figure 4b). Bilateral currency swaps of an average advanced HICs amounted to about 9 per cent of GDP whereas for an average emerging-market HICs this was about 5 per cent of GDP. Upper and lower MICs had active swaps of around 3.5 per cent of GDP during that time. No LIC is part of the currency swap network (see section 4). Borrowing from RFAs accounted for less than one per cent for upper and lower-MICs and LICs, whereas an average lower-MIC had the highest relative borrowing volume from its respective RFA of about 0.7 per cent.

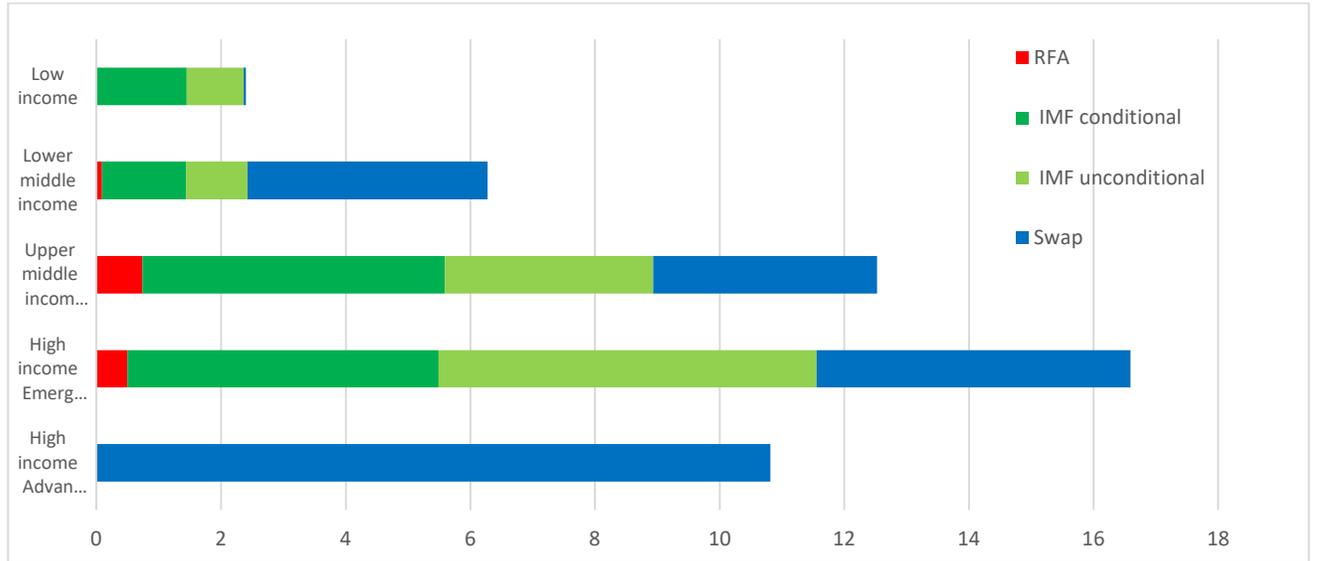
*Figure 4a Active GFSN use (in USD bn)  
(March 2020 - December 2021 by income group)*



Source: <https://gfsntracker.com/>.

Notes: Currency swaps are included here with the maximum amount of active currency swaps March 2020 – December 2021; see Box 1. Unlimited swaps are not included.

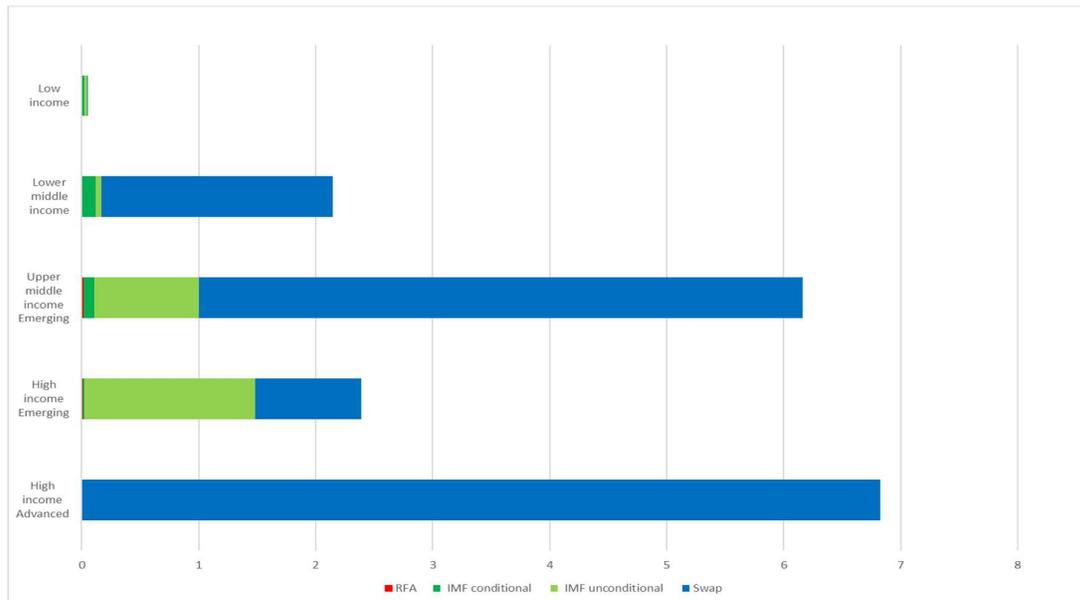
**Figure 4b Active GFSN use (as share of GDP)**  
 (March 2020 - December 2021 by income group)



Source: <https://gfsntracker.com/>. Notes: see graph 4a.

Figure 4c shows the same data as Figure 4a and Figure 4b, but includes weighted shares for country groups. We see here that the share of RFAs gets much smaller. This suggests that the regional option is being used mostly by countries of small economic size, especially within the country group of upper MICs and emerging HICs. For those countries of small economic size, RFAs, even those with smaller lending volumes, play a relevant role in crisis response.

**Figure 4c Active GFSN use as weighted share of GDP**  
 (March 2020 - December 2021 weighted GDP averages in % per country group)



Source: <https://gfsntracker.com/>. Notes: see graph 4a.

RFAs have provided loans of about USD 6.6 billion to their member countries since the onset of the pandemic; almost half of which has been disbursed by the EU MFA. The IMF has so far provided about USD 172 billion, of which almost 80 per cent or USD 135 billion were disbursed under unconditional facilities. Out of these USD 135 billion, 76 per cent or about USD 104 billion were disbursed to HICs and higher-MICs that have pre-qualified for access to the Precautionary and Liquidity Line (PLL) or the Flexible Credit Line (FCL). Active central bank currency swaps amounted to at least about USD 700 billion for HICs (excluding Fed and an estimation of unlimited swaps, see above), and at least about USD 600 billion for upper-MICs whereas lower-MICs had bilateral agreements of less than USD 180 billion since the onset of the pandemic (Figure 4a).

#### Currency swaps dominate GFSN response to the pandemic

Since the onset of the COVID-19 crisis, the number and the volume of swap agreements have been highly dynamic. The GFSN tracker shows that before the COVID-19 crisis, at the end of 2019, about 109 bilateral currency swap agreements were active. In April 2020, soon after the pandemic took hold, the number of agreements increased to 123, the maximum number of active contracts during 2020 and 2021. Yet, as of 1<sup>st</sup> January 2022, the number of valid swap agreements decreased to 104. The main reason for this reduction was the expiration of Fed temporary swap lines on 31<sup>st</sup> December 2021. Despite new variants of the COVID-19 virus, and the expectation of interest rate rise in 2022, the Fed decided to not renew currency swap agreements with Australia, Brazil, Korea, Mexico, Singapore, Sweden, Denmark, Norway and New Zealand. Altogether, these agreements had accounted for USD 450 billion.

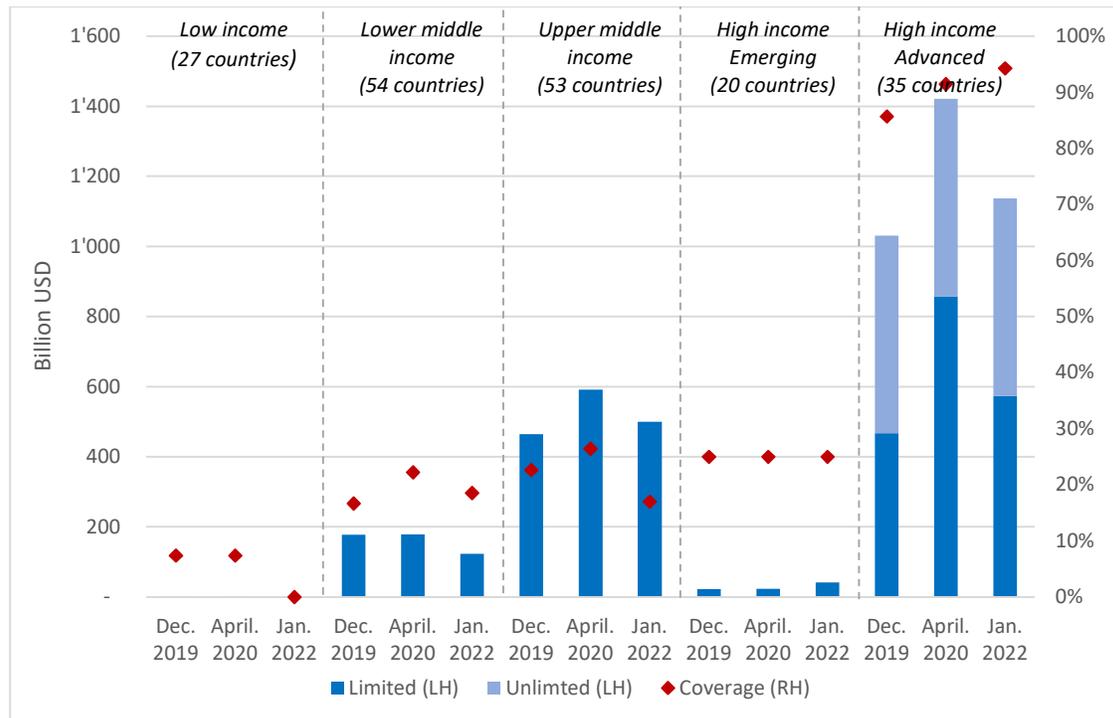
As mentioned above, in terms of volume, at its peak of April 2020, the volume of active swap agreements had reached a global volume of around USD 1.7 trillion and involved 50 countries—including countries from the European Union that have access to swap agreements through the ECB. Before the pandemic, this volume was almost 600 billion less (USD 1.13 trillion in December 2019). As of 1<sup>st</sup> January 2022, the volume of swap agreements shrunk again to 1.24 billion USD. This decline in the volume of swap agreement gives evidence to the central role of the United States in the swap network. Despite this overall dynamic expansion of the central bank swap network during the COVID-19 pandemic, Figures 2 and 3 show that predominantly advanced HICs' central banks are currency swap providers. No new swap agreements have been concluded with any of the 27 LICs<sup>7</sup> throughout the pandemic.

Although upper-MICs have been increasingly exchanging bilateral currency swaps, their swap agreements increased less dynamically than those between advanced HICs. In April 2020, 22 per cent of lower-MICs and 26 per cent of upper-MICs had a valid swap agreement with another country's central bank at their disposal. This percentage changed to 19 per cent and 17 per cent, respectively, until end of 2021. The total currency swap volume available to lower-MICs was about USD 178 billion in April 2020 and decreased to USD 123 billion by the end of 2021. Regarding upper-MICs, in the early phase of the pandemic, they had USD 592 billion in central bank currency swap volume at their disposal, an increase of more than USD 130 billion compared to the period before the pandemic (December 2019). Emerging-market HICs have less access to bilateral swap agreements. In April 2020, only 25 per cent of this group (5 countries) had access to a swap contract, which altogether amounted to USD 24 billion.

---

<sup>7</sup> The only swap agreement among LICs was between Sudan and Ethiopia, on about USD 16 million, valid between June 2017 and June 2020.

Figure 5 Bilateral currency swap network before and during the pandemic (per income group; billion USD, LH: left axis, RH: right axis)



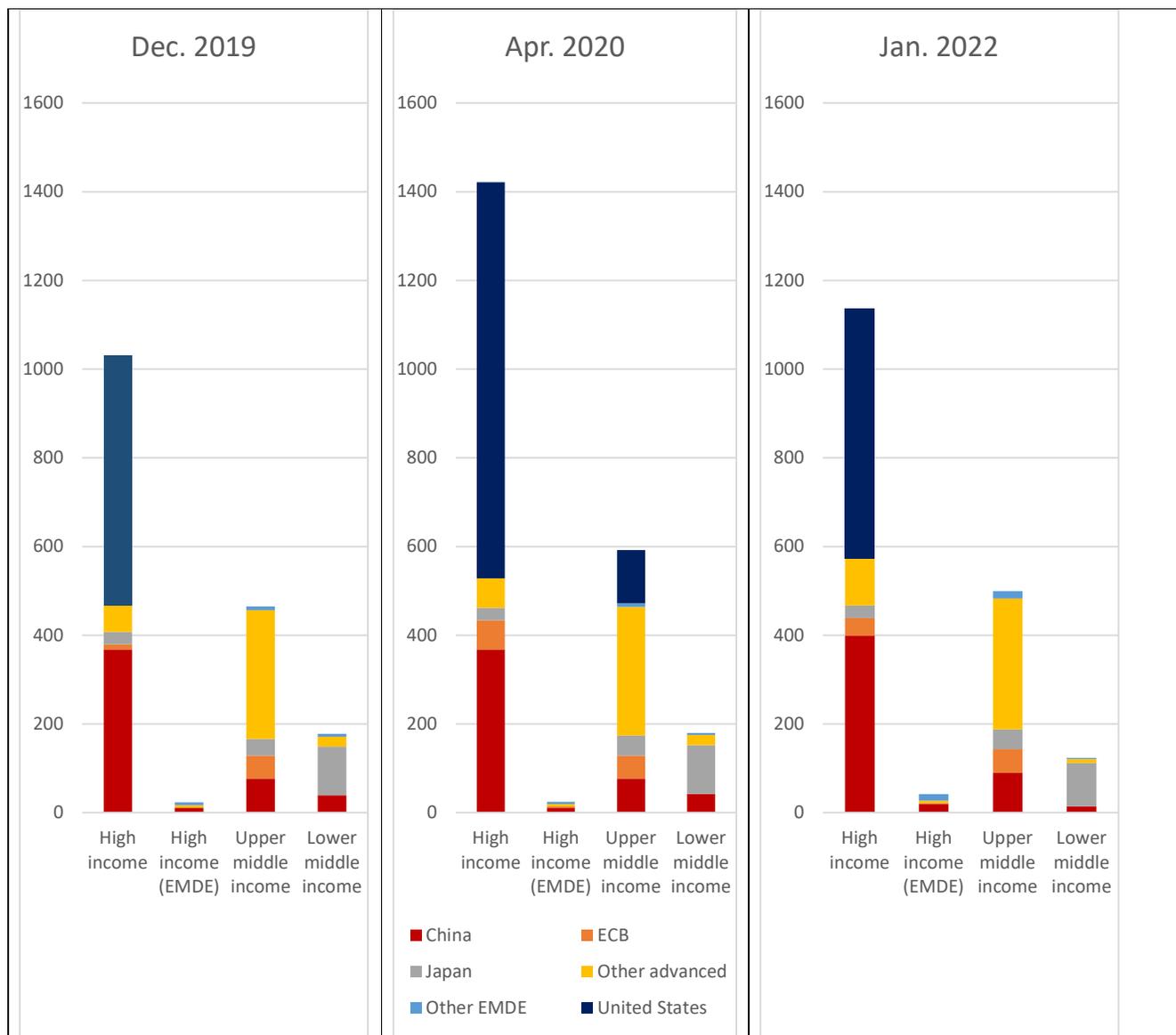
Source: <https://gfsntracker.com/>.

Notes: Valid currency swap agreements as of the 15<sup>th</sup> of each month, except for Jan-2022 which accounts for the 1<sup>st</sup> day of month. Estimation of currency swap volumes: see Box 1.

The GFSN tracker data suggest that the global bilateral central bank currency swap network involves exclusively advanced and selected emerging-market HICs and that the central bank currency swap activities accentuate GFSN disparities between income groups. By conservative estimates, 35 advanced HICs (which is equivalent to 91 per cent of this group) had over USD 1.4 trillion bilateral central bank currency swaps at their disposal in April 2020. Out of this amount, around 40 per cent (USD 564 billion) account for the estimation of the Fed unlimited currency swap agreements with major central banks (Fed, ECB, BoE, BOJ, SNB, BOC).

For advanced HICs, the Fed is by and large the main source of swap liquidity, accounting for almost USD 900 billion active bilateral currency swap agreements in April 2020, including the above mentioned estimate of the unlimited liquidity lines. The PBOC is the second most important offering central bank of currency swap agreements to HICs, with a total of USD 367 billion currency swap agreements active in April 2021. Since the Fed swap agreements expired on 31<sup>st</sup> December 2021, the volume of currency swaps to advanced HICs decreased by USD 330 billion. Different from the Fed swaps, the PBOC swap volume increased when we compare April 2020 and December 2021 (see Figure 6).

Figure 6: Bilateral currency swaps with Fed, PBOC, Japanese Ministry of Finance and BOJ, ECB and HICs by income group, 2020, 2021 USD billion



Source: <https://gfsntracker.com/>. Notes: see Figure 5.

In April 2020, over half of upper-MICs swap agreements (USD 362 billion) were made up of swap contracts from Japan, the ECB and other advanced economies (including for example the UK, Singapore, Korea, Canada). Further, in April 2020, China had around USD 80 billion swap agreements with other upper-MICs (Belarus, Kazakhstan, Turkey, Malaysia, Suriname, Argentina, Russia and Thailand). Moreover, USD 120 billion represent Fed swaps to Mexico and Brazil, which expired on 31<sup>st</sup> December 2021.

The sheer volumes speak for themselves, compared to IMF and RFA lending: Central bank currency swaps have provided an important liquidity buffer during the COVID-19 crisis to those countries who could access a bilateral instrument that thus seems to have supported global financial stabilization. At the same time, central bank currency swaps are provided and designed in the domestic interests of the partner central banks. Access to central bank currency swaps is – in contrast to access to IMF or

RFAs loans – not predictive and not based on multilaterally agreed rules (Destais 2016; Denbee et al. 2016). Access to central bank currency swaps is determined by the geo(political) and economic interests of the swap providing central bank's country. Economic literature has provided initial empirical insights on the motivation for central bank currency swap provision (see next to Xia/Garcia-Herrero 2013 Aizenman et al. 2021, Perks et al. 2021, Sahasrabudde 2019). Where PBOC central bank currency swap provision has been found to be driven more by trade interest and relationships (see also McDowell 2019), Fed swaps have been found to be related to banking sector and financial relationships. This potentially undermines multilateral lending and standards and predictability of access to crisis finance (Essers and Vincent 2017). Further, prolongation of a crisis that is not only related to a temporary liquidity crunch but to unsustainable debt levels has been articulated as a concern (Perks et al. 2021, Mühlich et al. 2021). Lack of disclosure of currency swap agreement details and actual usage makes identifying the contribution of central bank currency swaps to crisis prevention and response to temporary balance of payments problems difficult (Destais 2016, Denbee et al. 2016, Perks et al. 2021).

GFSN tracker data suggest that bilateral currency swaps are likely to continue to be a key component of the GFSN. Given the lack of binding mechanisms that swap agreements entail, they are seen as a sign of trust between participant central banks (ECB 2021, UNCTAD 2021) and this trust seems to be rising between HICs in particular. At the same time, the end of temporary currency swap provision by the Fed to selected EME at the end of 2021 indicates that this may be different for upper-MICs and other country groups. For the PBOC agreements, GFSN tracker data suggest that maturity of swaps is increasing from three years to five years. Similarly, the volumes of swap agreements rise steadily. Similarly, the negative externalities in terms of uneven access and availability of this element of the GFSN will likely remain or aggravate if GFSN finance is not provided in a more coordinated fashion.

#### IMF conditional lending small role in response to the pandemic

Since the onset of the COVID-19 pandemic, demand for IMF lending is mostly directed towards credit lines without standard conditionality that were reformed to allow access for a larger group of countries and higher credit volumes in the beginning of 2020 (RFI and RCF lending facilities, see above). Demand for lending with standard conditionality, however, has been very limited, and demanded in part by countries which already have been in negotiations for conventional IMF crisis lending before the pandemic, or have extended earlier agreements with standard conditionalities.

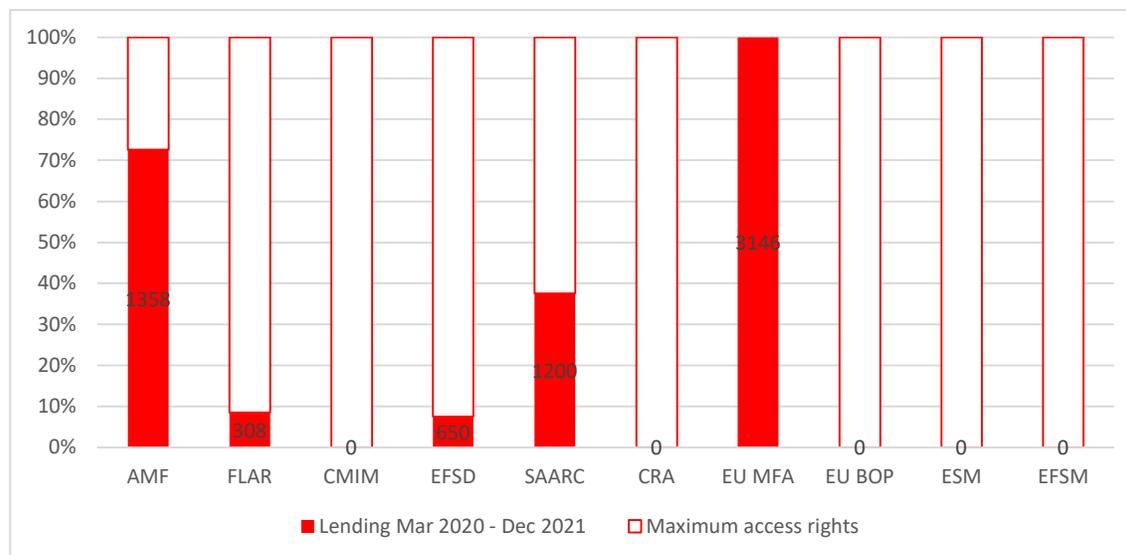
About USD 137 billion (80 per cent) of overall lending of about USD 172 billion was disbursed as unconditional lending. The major part (about 76 per cent) through the voluminous PLL and FCL to a very small number of countries, as mentioned above. The smaller part (about 24 per cent) through the newly reformed RCF, RFI facilities. We have no record of utilization of the new Short term Liquidity Line (SLL). About USD 34 billion (34 per cent) of IMF lending was disbursed as traditional Stand-by Arrangement (SBA) or Extended Fund Facility (EFF) and Extended Credit Facility (ECF). The debt service restructuring through Catastrophe Containment and Relief (CCR) trust based on the Poverty Reduction and Growth trust made up for about USD 1 billion. About one third of conditional lending was disbursed through SBAs with lower-MICs and LICs.

#### The marginal role of regional funds

Despite a pledge to do whatever it takes to respond to the pandemic and its economic effects, the RFAs role in COVID-19 response so far remains negligible (Stubbs et. al 2020; Mühlich et al. 2021). Only USD 6.6 billion out of their total lending capacity of about USD 1 trillion was disbursed so far. Predominantly upper-MICs and lower-MICs have requested their RFA: member countries of the Arab Monetary Fund (AMF), the Eurasian Fund for Stabilization and Development (EFSD), the South Asian

Association for Regional Cooperation (SAARC) swap arrangement and the EU Macro-Financial Assistance (EU MFA) (see Figure 7).

*Figure 7 Loan agreements March 2020 - December 2021 as a share of maximum access rights per RFA in per cent and total loan amount USD million*



Sources: <https://gfsntracker.com/>; Mühlich et al. 2020.

The comparative strength of RFAs loans is their comparatively smoothly handling for a quick crisis response. Yet, most regional funds operate with small lending volumes. The most voluminous of the six RFAs between emerging and developing economies, Chiang Mai Initiative Multilateralization (CMIM) and the Contingent Reserve Arrangement (CRA) of the New Development Bank (NDB), have remained untapped, as is the case since their foundation. Instead, CMIM and CRA member countries relied almost exclusively on bilateral central bank currency swaps. Furthermore, the largest regional funds, the European Stabilization Mechanism (ESM), as well as the European Financial Stabilization Mechanism (EFSM) and the EU Balance-of-Payments assistance facility (EU BOP) funds remained unused.

At the same time, some of the RFAs that disbursed crisis finance in response to the COVID-19 shock contributed substantial amounts in relation to the respective access limit they allow per member country: In particular, the AMF provided relatively large sums, compared to its overall lending capacity, to its frequent borrowing member countries through different facilities (individual loans of up to more than USD 600 million) that sum up to about USD 1.3 billion. In the SAARC swap arrangement, the Indian Reserve Bank set up several swap agreements with borrowing member countries that stretch to maximum swap levels agreed under SAARC (USD 200 to 400 million) that sum up to USD 1.2 billion. The EFSD had three disbursements to borrowing countries within usual access limits between USD 50 and 500 million that sum up to USD 650 billion. The Latin American Reserve Fund (FLAR, according to its Spanish acronym) has disbursed one loan to Ecuador of about USD 300 million. The EU MFA disbursed about USD 3.1 billion or half of the total RFA lending between March 2020 and December 2021.

So, the RFA's response to the pandemic is rather similar to previous borrowing patterns that Mühlich and Fritz (2021) find for RFAs before the COVID-19 crisis. The only exception is the FLAR which, contrasting with the high demand from its members in the past, has not been activated in the current

crisis. The other RFA that were in use by their member countries – AMF, EFSD and SAARC – were utilized in multiple agreements by member countries and partly combined with IMF programs and partly with bilateral central bank currency swaps – primarily with PBOC.

In fact, for those member countries that requested their RFA, it substantially contributed to their COVID-19 response. While this seems less surprising for large arrangements such as EFSD and SAARC, the smallest fund, AMF, was requested by its members in response to the COVID-9 shock even though its individual access limits can be too small for the majority of its member countries to respond to a crisis as a stand-alone source.

While the COVID-19 pandemic continues, and hence before short-term financing needs and resources in the GFSN are known, we offer the following possible explanations for the underutilization of RFAs:

First, a high level of market liquidity in the first phases of the pandemic has allowed most countries relatively easy access to market finance in case of temporary liquidity problems. Together with a historically low interest rate level in AE, refinancing from the market is not as much a bottleneck for many countries as it used to be during previous systemic shock episodes.

Second, as mentioned above, the IMF reformed the unconditionally accessible Catastrophe Lending Facilities in response to the COVID-19 shock in early 2020 to allow eligibility to a broader set of countries as well as a higher exploitable lending volume. Even though the increased lending volumes are relatively small and partly resemble those of RFAs for LICs and lower-MICs (see Figure 1), unconditional IMF finance was requested more than RFAs' loans. Those countries that requested their regional fund oftentimes requested RFAs and IMF at the same time. RFA member countries that were hit hard by the COVID-19 pandemic and required higher borrowing volumes directly requested IMF conditional loans, such as EFSD member Armenia, AMF member Egypt, FLAR member Ecuador, or requested nonconditional IMF finance, if eligible, such as FLAR members Colombia and Peru. Other RFA member countries, such as the Kyrgyz Republic in the EFSD, combined similar levels of liquidity assistance from their RFA and the unconditional IMF lending.

Third, Vinokurov and Levenkov (2021) identify the higher demand of RFA member countries for short-term loans of multilateral development banks as well as bilateral lending between neighbouring governments outside the respective regional fund as main reasons for the underperformance of regional funds in the immediate crisis reaction, in the case of EFSD member countries.

Fourth, as of yet, instead of requesting their RFA, CMIM and CRA member countries have become partner to a currency swap or renewed existing swap agreements, also in response to the COVID-19 pandemic, most of them with the PBOC and BOJ (Mühlich and Fritz 2021). Literature widely agrees that the non-autonomous set-up of those RFAs – drawing more than 40 per cent of total lending capacity per country in CMIM and more than 30 per cent of total lending capacity in CRA requires the agreement on an IMF program – deters member countries from requesting crisis finance from their respective regional or trans-regional fund (Fritz and Mühlich 2018).

#### 4. Debt service burden during COVID-19 pandemic

On the eve of the COVID-19 pandemic, 46 LICs were spending more of their resources on debt service payments than on health care.<sup>8</sup> Shortly after the onset of the pandemic in 2020, IMF debt distress

---

<sup>8</sup> [https://www.eurodad.org/covid19\\_debt1](https://www.eurodad.org/covid19_debt1)

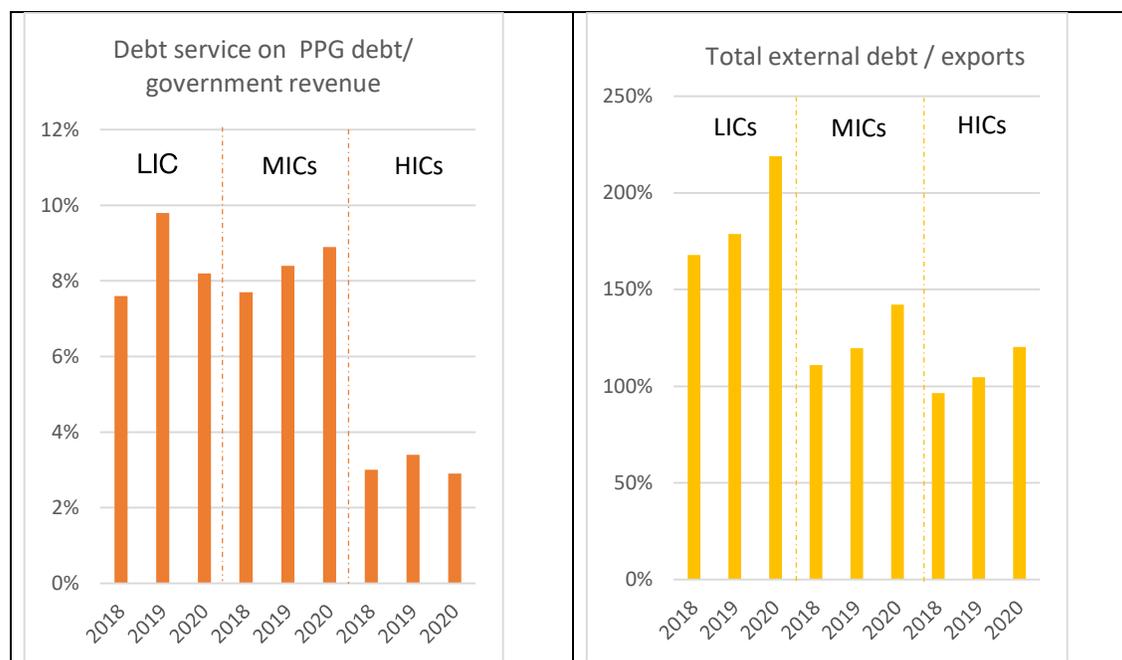
analysis of least developed countries identifies 54 countries at risk of debt crises, compared to 16 in 2013.

In response to high levels of indebtedness and a need to combat the virus, in the beginning of 2020, the G20 announced the Debt Service Suspension Initiative (DSSI) and Common Framework for Debt Treatment. While both of these measures were unprecedented, both fell short of expectations because of only partial creditor participation, the exclusion of MICs and a focus on debt suspension instead of permanent debt relief.

UNCTAD data suggest the debt service on public debt as share of government revenue for LICs rose to 10 per cent in 2019, before falling to 8 per cent in 2020 (as the DSSI delayed debt service payments). The absorption of public resources by debt servicing is similar for MICs (Figure 8). Debt service payments still make up a large part of government expenditure in countries that struggle with financial resources to combat the pandemic.

At a time when advanced economies are implementing monetary policy stances to fight inflation, LICs and MICs are facing higher debt levels in 2020 as compared to 2018 when measure in terms of debt service on PPG to government revenue, and when total external debt is compared to exports. The announcement interest rate hikes by the Fed from March 2022 onwards, followed by other key central banks, together with already realized higher interest rates in a number of emerging markets raises the risk of financial fragilities both for public sectors and private firms. Large systematic capital withdrawal by global investors from emerging markets might trigger exchange rate depreciation and financial fragility.

Figure 8: Debt service and debt ratio to exports 2018, 2019, 2020



Source: United Nations Conference on Trade and Development secretariat calculations, based on World Bank, International Monetary Fund and national sources.

Notes: Country groups are economic groups as defined under UNCTADstat classifications, available at <https://unctadstat.unctad.org/EN/Classifications.html>. 2020 data is estimated. Exports comprise goods, services and primary income.

“Governments around the world responded to the COVID-19 pandemic with massive fiscal, monetary, and financial stimulus packages. While these measures were aimed at addressing the health emergency, cushioning the impact of the pandemic on the poor and vulnerable and putting countries on a path to recovery, the resulting debt burden of the world’s low-income countries rose 12% to a record \$860 billion in 2020, according to a new World Bank report” (World bank 2021).

Altogether, these figures suggest that vulnerabilities rather increased during the COVID-19 crisis despite international measures, such as the DSSI. In fact, in 2020 and 2021, several countries with higher income levels experienced solvency crises: Argentina, Ecuador, Lebanon, Suriname. About 45 per cent of LICs (according to UNCTAD classification) were in solvency problems as IMF debt distress results as of April 2021 suggest.

External debt distress is likely to increase especially for LICs as the DSSI has expired at the end of 2021. While in theory the GFSN is poised to provide short-term liquidity financing to aid member countries facing balance of payments crises, many LICs lack sufficient access to more than one layer of the GFSN, so that especially for these countries debt relief is more important than ever. In 2020, 48 finance ministers from the Vulnerable Group of Twenty (V20) Climate Vulnerable Forum (CVF) endorsed a plan entitled Debt Relief for a Green and Inclusive Recovery (DRGR) to address the sovereign debt crisis that many countries in the Global South are potentially facing.<sup>9</sup> At its heart, DRGR lays out systematic approaches to advance a sustainable, green transition while helping countries resolve debt crises.

Meanwhile, in August 2021, the IMF member states agreed on the largest historical SDR issuance of about USD 650 billion. USD 438 billion was allocated to 58 developed and developing HICs, and USD 212 billion to LICs and MICs. According to Jensen (2021), only USD 54.5 billion was allocated to 82 LICs and MICs currently classified as debt vulnerable. “In comparison, USD 438 billion is equal to about 47 per cent of total public debt in excess of sustainability for the group of 82 highly debt-vulnerable countries” (ibid).

Thus, we find countries in those income groups that we have identified as having less choice and access to crisis finance in the GFSN lending other than IMF conditional lending to be affected by a heightened and further increasing risk of solvency problems. Ability to respond adequately to the current COVID-19 pandemic financing needs is undermined by this lack of access to easily disburseable voluminous short-term liquidity at the same time that debt servicing is increasing and external indebtedness is rising. While advanced HICs have been able to spend significantly to cope with the pandemic and invest in economic recovery, LICs have become more financially vulnerable since the start of the pandemic. In addition, in the debt relief landscape that expired with DSSI and in the Common Framework, MICs have been completely overlooked. MICs’ risk of debt crises is increasing considerably as AE, most notably the USA, prepare for a period of monetary tightening. What is more, no credible effort has been made to compel private creditor participation in the Common Framework. The share of global indebtedness held by MICs compounds the debt challenge, as MICs “represent 96 per cent of the debt of developing countries, excluding China and India” (Bárcena 2021).

---

<sup>9</sup> <https://www.bu.edu/gdp/2021/06/29/debt-relief-for-a-green-and-inclusive-recovery-an-ambitious-new-proposal-for-a-challenging-time/>

## 5. Conclusions

The data presented by the GFSN tracker suggest that the GFSN – the network of global financial sources that prevent or backstop a temporary balance of payments stress – is far smaller and less diversified for LICs and MICs than is the GFSN for HICs. At the same time, debt analysis by UNCTAD, World Bank and the IMF points to a rising solvency problem that goes beyond a temporary liquidity crunch. Debt burdens in LICs are approaching historic heights, as they increased 12 per cent to a record USD 860 billion in 2020 (International Debt Statistics 2022). These increases and the underutilization of the G20 DSSI and Common Framework initiatives raise concern about global financial stability in 2022.

Our analysis suggests that the current uneven and piecemeal setup of the GFSN systemically contributes to financial vulnerability of LICs and lower-MICs. This becomes particularly visible with an exogenous shock like the COVID-19 pandemic. Upper-MICs and HICs can safeguard their economies much better since these countries take part in the dynamically increasing bilateral central bank currency swap network that offers immediate and voluminous exchange of liquidity.

What are the consequences of inequality in the expanding GFSN? The GFSN crisis finance is a third-party finance that should be provided on a timely, sufficient, and unconditional basis when associated with a liquidity crunch such as the one caused by the pandemic. Lack of access to and choice in the GFSN for LICs and lower-MICs is a serious concern: it implies a higher probability of a liquidity crisis being aggravated and prolonged into a solvency risk.

We conclude that liquidity *and* solvency risk of LICs and lower-MICs need to be brought to the forefront in the global COVID-19 response in order to prepare for upcoming dynamics of the pandemic in these countries. In lower income country groups, resources to stabilize economies, society and health sectors are scarce and comparatively less supported by the GFSN. These countries also lack adequate and bold debt restructuring options. Further, the divergence between country groups is not only a matter of quantity of crisis finance but also of the quality: The more HICs' central banks place themselves in the driver seat of liquidity crisis response through voluminous, partly unlimited, unconditional bilateral currency swaps, the more crisis prevention and response is subject to domestic interests of a few high income countries – much in contrast to a multilateral approach to global financial stabilization. At the same time, LICs and many MICs have little choice but to request limited volumes of unconditional IMF finance or more voluminous IMF programs together with the contested policy conditionality as well as political and market stigma (Kentekelenis et al. 2016, Gallagher et al. 2021).

The COVID-19 crisis has made the above mentioned shortcomings of the GFSN evident, but action that addresses these inequalities is not bold enough: First, with the onset of the COVID-19 crisis, the IMF temporarily reformed some unconditional credit lines such as the RFI and RCF to provide crisis finance with as little conditionality as possible and a limited amount and maturity in relation to country quota. This has become – according to GFSN tracker data – the most drawn liquidity by LICs. Yet, the lending capacity that these facilities provide to LICs is still small compared to the liquidity provision that HICs can request.

Second, now, after two years of the pandemic, more countries are in debt distress than before. Bolder action is required: in August 2021, the IMF approved an SDR increase of USD 650 billion that has been implemented end of 2021. The 31 countries classified as low income developing countries by the IMF together receive about USD 21 billion or about 3 per cent of the quota based allocation. Our analysis

suggests that comprehensive SDR reallocation and a thorough debt restructuring is needed to avoid a storm of liquidity crunches and solvency issues. In December 2021, the IMF (2021a) identified the limitations of the G20 common framework as a global measure that had been set up to address the COVID-19 crisis: its successor, the Common Framework, would need to increase scope to further countries and private debtors to avert solvency crises in countries in debt distress. Otherwise, costs for creditor and debtor countries would similarly increase. While many EMDE have faced until the end of 2021 a more conducive market environment, this has started to change with the (announced) end of low interest rates and vast liquidity provision by the key central banks, debt levels continue to surge (Forni and Turner 2021). If demand for liquidity resources grows, poorer countries and regions other than Europe and Southeast Asia may struggle to find adequate crisis financing.

Third, the most utilized IMF crisis response facility by LICs and lower-MICs was the Catastrophe Containment and Relief Trust grants to reschedule debt service payments through the IMF Poverty Reduction and Growth Trust. Yet, the total volume of those operations is negligible. Intensive use points to a need to address debt service burdens further for a broader set of countries.

In sum, two years after the onset of the COVID-19 crisis, the GFSN remains systemically unequal both in terms of volume disposed, and of the quality of liquidity access, and multilateral measures remain inadequate to ensure all countries with the means to prevent and respond to balance of payments stress. Building an equitable GFSN that provides all countries with comparatively equal access to crisis liquidity is all the more urgent.

How could this be achieved? Our policy proposals are that, first, greater emergency finance provision could be achieved through coordinating GFSN elements with respect to their comparative strengths (ESM 2018). In contrast to a recent IMF working paper on the GFSN and the role of central bank swaps (Inacu et al. 2021), we conclude that particularly for HICs and upper-MICs the IMF is not the hub of crisis firefighters anymore. For HICs, and even for part of the upper MICs, swaps are more important than regional funds or the IMF. On the other hand, LICs and lower-MICs primarily depend on IMF crisis finance, and here dominantly on standard conditional lending. At the same time, inappropriate crisis resolution (Kentekelenis et al. 2016) and the fear of political and market stigma contribute to potentially costly strategies of IMF avoidance for those countries.

Coordinating the GFSN elements in a way that leverages their strengths could be a way forward. Suggestions have been made as regards the inclusion of currency swaps and their emitting central banks into reform approaches of one or more elements of the GFSN and into coordination of GFSN lending<sup>10</sup> for example. Suggestions have been made on IMF coordination with regional funds (ESM 2018). We argue that the lesson of the first phase of the COVID-19 pandemic is that GFSN reform has to be more comprehensive to address its structural inequalities and to serve also LICs and MICs (see also Gallagher et al. 2021).

RFAs and the IMF would need more coordination of monitoring and oversight while safeguarding each entities autonomy and comparative strengths. Thereby, untapped RFA funds need to be made accessible by coordinating lending activities and at the same time reducing market stigma associated to multilateral mechanisms, including some of the regional funds (see Mühlich and Fritz 2021). Furthermore, demand for IMF unconditional lending facilities points to a need for such resources. Further steps to increase the access to unconditional balance of payments support are overdue.

---

<sup>10</sup> Perks et al. 2021 suggest bilateral currency swaps as immediate crisis response, coordinated with multilateral lending standards and debt monitoring. Weder di Mauro and Zettlemeyer (2017) suggest to combine IMF pre-qualification associated with access to the IMF's non-conditional pre-qualification facilities. Destais (2016) points out the need for an international standards or principles for the issuance of central bank currency swaps.

Leveraging the comparative strengths of each GFSN element through coordination could contribute to preventing costly crisis prolongation or default in particular in LICs and lower-MICs.

Most importantly, uncoordinated surveillance and lending entails the risk of mistakenly categorizing a solvency crisis as a liquidity crisis. For LICs and MICs, those regional funds that operate autonomous from the IMF need to maintain and increase their lending capacity, especially those RFA with refinancing from capital markets. Coordination with IMF at eyes level on lending policy, sequencing and surveillance could be key to untap these regional resources. Further, RFAs could possibly rework their mandate to explore the fiscal support in the case of exogenous shocks such as a pandemic or climate crisis, going beyond exclusive balance of payments finance.

Second, the strong and immediate demand for unconditional crisis finance by the IMF points to a need for perpetuating more options for unconditional balance of payments support particularly for LICs and lower-MICs in the IMF. The member countries' reaction to the COVID-19 crisis shows that standard conditional facilities require further overhaul as laid out, for example, in Stubbs et al. (2020) and Gallagher et al. (2021), to address adequacy of conditionality and appropriateness of crisis response. The stigma attached to borrowing from traditional IMF facilities and related reluctance of member countries to involve the IMF in crisis resolution entails the risk of delaying crisis response with high financial and social costs for countries.

Finally, multilateral institutions need to become more attractive to member countries to prevent their marginalization and circumvention. If no alternative sources such as central bank swaps are available, this lack of attractivity for borrowing countries creates the risk of crisis prolongation for LICs and lower-MICs on the other. Maintaining choice and competition in the system is important to encourage better service in terms of adequate liquidity provision, and to enhance the bargaining power of governments regarding efforts to return to economic stability and sustainability. Yet, the GFSN tracker data suggest that such choice and competition in the GFSN increases inequality in more than one way, as not all countries can choose from the same menu of options to prevent or backstop a liquidity crunch in the event of an exogenous shock like the pandemic. Such inequalities need to be addressed so that no one is left behind.

## References

- Aizenman, J, Ito, H and G K Pasricha (2021) "Central Bank Swap Arrangements in the COVID-19 Crisis", *International Journal of Money and Finance*, 102555, <https://doi.org/10.1016/j.jimonfin.2021.102555>.
- Aizenman, Joshua, Hiro Ito, and Gurnain Kaur Pasricha (2021) 'Central Bank Swap Arrangements in the COVID-19 Crisis', *Journal of International Money and Finance*, 102555. Available at: <https://doi.org/10.1016/j.jimonfin.2021.102555>.
- Bárcena, Alicia (2021) It is Time for Middle-Income Countries to Be Part of Debt Relief Initiatives for a Green and Inclusive Recovery. Available at: <https://www.cepal.org/en/news/it-time-middle-income-countries-be-part-debt-relief-initiatives-green-and-inclusive-recovery>.

- Denbee, E, C Jung and F Paternò (2016) 'Stitching together the global financial safety net', Bank of England Financial Stability Paper 36.
- Destais, C (2016) 'Central Bank Currency Swaps and the International Monetary System', *Emerging Markets Finance and Trade* 52(10), 2253–66.
- ECB (2021) Central bank liquidity lines. Available at: [https://www.ecb.europa.eu/mopo/implement/liquidity\\_lines/html/index.en.html](https://www.ecb.europa.eu/mopo/implement/liquidity_lines/html/index.en.html) (Accessed 08 December 2021).
- ESM (2018) IMF–RFA collaboration: motives, state of play, and way forward. A joint RFA staff proposal. ESM Discussion Paper Series 4, Special Issue.
- Essers, D. and Vincent, F. (2017) The global financial safety net. In need of repair? *National Bank of Belgium Economic Review*, issue ii, 87–112.
- Forni, L, and P Turner (2021) 'Global liquidity and dollar debts of emerging market corporates', *Vox EU*, Jan 2021, <https://voxeu.org/article/global-liquidity-and-dollar-debts-emerging-market-corporates>.
- FSB (2020) Financial Stability Board Global Monitoring Report on Non-Bank Financial Intermediation 2019. Available at: <https://www.fsb.org/2020/01/global-monitoring-report-on-non-bank-financial-intermediation-2019/>.
- Gallagher, K P, H Gao, W N Kring, J A Ocampo, and U Volz (2021) 'Safety First: Expanding the Global Financial Safety Net in Response to COVID-19' *Global Policy* 12(1), pp. 140-148.
- Garcia Herrero, A and Xia L (2013) 'China's RMB bilateral swap agreements: What explains the choice of countries?' *Bank of Finland Institute for Economies in Transition Discussion Paper* 12.
- Georgieva K (2020) Opening Remarks at a Press Briefing following IMFC Conference Call. Available at: <https://www.imf.org/en/News/Articles/2020/03/27/sp032720-opening-remarks-at-press-briefing-following-imfc-conference-call>.
- Grabel, I. (2019) 'When Things Don't Fall Apart: Global Financial Governance in an Age of Productive Incoherence'. MIT Univeristy Press.
- IMF (2021a) IMF Database of Fiscal Policy Responses to COVID-19, July 2021. Available at: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>.
- IMF (2021b) The G20 Common Framework for Debt Treatments Must Be Stepped Up. Available at: <https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up/>.
- IMF (2021c) Where the IMF Gets Its Money. Available at: <https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money>.
- IMF (2021d) Managing Divergent Recoveries. *World Economic Outlook* April 2021. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>.
- Inacu, A., Seunghwan, K and A Miksjuk (2021) 'The Global Financial Safety Net during the COVID-19 Crisis: An Interim Stock-Take' *IMF Special Series on COVID-19* September 15, 2021.
- Jensen, L (2021). An unprecedented opportunity to boost finance for development. *UNDP Development Future Series* June 2021. Available at: <https://www.undp.org/publications/unprecedented-opportunity-boost-finance-development#modal-publication-download>.
- Kentikelenis, A, T Stubbs and L King (2016) 'IMF Conditionality and Development Policy Space, 1985-2014', *Review of International Political Economy*, 23(4): 534-582.
- Kring, W. N., L. Mühlich, B. Fritz, K.P. Gallagher, J.D. Pitts, M.Z. Marques, N. Gaitán (2021) "Global Financial Safety Net Tracker." *Global Development Policy Center*. Available at: <http://www.gfsntracker.com>.
- Kring, W.N. and K.P. Gallagher (2019) 'Strengthening the Foundations: Alternative Institutions for Finance and Development' *Development and Change*, 50(1), 3-23. McDowell, D. (2019) 'The

- (Ineffective) Financial Statecraft of China's Bilateral Swap Agreements' Development and Change, 50(10), 122-143.
- Mühlich L and B Fritz (2018) 'Safety for Whom? The Scattered Global Financial Safety Net and the Role of Regional Financial Arrangements', *Open Economies Review* 29(5), 981–1001.
- Mühlich L and B Fritz (2021) 'Borrowing Patterns in the Global Financial Safety Net: Does Governance Play a Role?', *Global Policy*, Vol.12, Supplement 4, 47 – 68.
- Mühlich L, Kring W N, B Fritz (2021) Towards the Marginalization of Multilateral Crisis Finance? The Global Financial Safety Net and COVID-19, Boston University, Global Development Policy Center, GEGI Policy Brief 015.
- Mühlich L, Kring, W N, Fritz B and Gallagher K (2020) The Global Financial Safety Net Tracker: Lessons for the COVID-19 Crisis – Lessons from a New Interactive Dataset, Boston University, Global Development Policy Center, GEGI Policy Brief 010.
- Obstfeld, M (1996) 'Models of Currency Crises with Self-fulfilling Features', *European Economic Review* 40(1): 1037–47.
- Perks, M, Rao, Y, Shin, J and Tokuoka, K (2021) 'Evolution of Bilateral Swap Lines' IMF Working Paper 21/210.
- Sahasrabuddhe, A (2019) "Drawing the line: the politics of federal currency swaps in the global financial crisis", *Review of International Political Economy*, 26:3, 461-489, <https://doi.org/10.1080/09692290.2019.1572639>.
- Scheubel B and L Stracca (2019) 'What do we know about the global financial safety net? A new comprehensive data set', *Journal of International Money and Finance* 99. Available at: <https://doi.org/10.1016/j.jimonfin.2019.06.003>.
- Stubbs, T, W N Kring, C Laskaridis, A Kentikelenis, and K P Gallagher (2020) 'Whatever it takes? The global financial safety net, COVID-19, and developing countries.' *World Development*, Vol. 137, 105171.
- UNCTAD (2020) Trade and Development Report 2020. From global pandemic to prosperity for all: avoiding another lost decade. Available at: <https://unctad.org/webflyer/trade-and-development-report-2020>.
- UNCTAD (2021). Currency Swap Agreements. DA-Covid 19 Project Paper 12/21. Available at: <https://mobilizingdevfinance.org/research-material/currency-swap-agreements> (Accessed 08 December 2021).
- Vinokurov, E and A Levenkov (2021) 'The enlarged global financial safety net', *Global Policy* 12(1), pp. 15-21.
- Weder di Mauro, B and J Zettlemeyer (2017) 'The New Global Financial Safety Net. Struggling for Coherent Governance in a Multipolar System', *Essays on International Finance* Vol. 4, Waterloo: Centre for International Governance Innovation.
- World Bank (2022) Global Growth to Slow through 2023, Adding to Risk of 'Hard Landing' in Developing Economies. Available at: <https://www.worldbank.org/en/news/press-release/2022/01/11/global-recovery-economics-debt-commodity-inequality>.
- World Bank (2021) Low-Income Country Debt Rises to Record \$860 Billion in 2020. Available at: <https://www.worldbank.org/en/news/press-release/2021/10/11/low-income-country-debt-rises-to-record-860-billion-in-2020>.