Vinokurov E. (2020) Global Financial Architecture and the COVID Crisis. Expert Opinion. Valdai Club. Available at: https://valdaiclub.com/a/highlights/global-financial-architecture-and-the-covid-crisis1/

After every major economic crisis, the global financial architecture changes markedly. The COVID-19 crisis will not be an exception. The current expert discussions are largely focused on a possible shift towards de-globalisation processes, the strengthening of regionalism and the role of nation-states. Recognising the factors behind these fears, Evgeny Vinokurov, Chief Economist of the Eurasian Fund for Stabilisation and Development, shows the multilevel and complex nature of the current processes in the institutions responsible for the anti-crisis function of the globes financial architecture.

In 2018, the Valdai Club released a report, Living in a Crumbling World, in which it suggested that multilateral cooperation would be phased out. It notes that the crisis of international institutions leads to growing anarchy - each state will rely on itself to solve problems and ensure its survival. In its development, the authors this year have released a new report "Staying Sane in a Crumbling World". It emphasises the thesis that a sovereign state remains the only institution capable of acting in an orderly and efficient manner, a fact which has been confirmed by the current COVID-19 crisis.

I share the high level of concern of the authors of the Valdai reports in the area of my competence - macroeconomic policy and international economic relations. Indeed, the current COVID-19 crisis has been characterised by the fact that the state is forced to make big commitments in supporting the healthcare system and providing social spending. However, governments today have to make difficult economic policy decisions. There is a need to raise new debt in order to close budget and balance of payments gaps, thereby burdening future generations. It should be kept in mind that at the national level, the very first level of self-defence is the countries' own reserves. In poor economies, they are small and cannot be regarded as a sufficient, stabilising source of financing. In addition, as world practice shows, countries are reluctant to spend their reserves, fearing to lose the trust of economic agents. The experience of the COVID crisis confirms this practice. Thus, given the depth of the crisis and the importance of minimising its long-term consequences for the economy, an adequate response at the regional and global level is absolutely necessary.

However, pessimism is not always justified. My conclusion will be that in terms of implementing the anti-crisis functions of the world financial system, the enormous efforts of the 2010s are now bearing fruit, and the complex processes of globalisation / de-globalisation are complex and - at least for now - positive.

Even professional economists tend to know little about this aspect of the global financial system - it is not very public. Meanwhile, the amount of accumulated funds is very large. The functions of anti-crisis support and macroeconomic stabilisation are implemented by the institutions of the Global Financial Safety Net (GFSN). It is customary to refer to their four main elements: countries' own reserves; bilateral swap agreements between countries (central banks); regional financial mechanisms (RFMs); and the IMF (more on architecture and institutions of the GFSN). The good news is that the situational preparedness of the Global Financial Safety Net in general has skyrocketed over the past decade. From a compact two-tier system with national reserves and the IMF, the GFSN has quickly evolved into a multi-tier and much less centralised system with additional elements at the regional and bilateral levels. Currently, the amount of available financing under the GFSN has reached the equivalent of 4% of world GDP. The growth of the regional component of the GFSN in the last decade has amounted to $1.1 trillion due to the new RFMs, and coverage was expanded to 43 countries. In the Eurasian region, one such RFM is the Eurasian Fund for Stabilisation and Development. In 2009-2019, the volume of financial resources provided to them within the framework of budget support and balance of payments support programmes amounted to $5 billion.

Another trend of the last decade has been the expansion of possible sources of stabilisation through financing from multilateral development banks and interstate financial support. Although international development banks in the legal sense are development institutions and not stabilisation mechanisms, de facto they are playing such a role in increasing volumes. We see such examples in the activities of the World Bank and the Asian Development Bank, and in 2020 - also in the Asian Infrastructure Investment Bank and the New Development Bank (often referred to as the "BRICS Bank").

Very significant volumes - both in absolute and in relative terms - of bilateral stabilisation financing demonstrate its high importance, primarily for developing economies. China has become an extremely important donor during the 2010s. It is difficult to assess the scale of this lending, although the first estimates have already appeared. Russia plays a critical role as a regional donor among the Eurasian countries (see below). The examples of China and Russia suggest the existence of such a stable phenomenon in a number of regions of the world. This phenomenon requires further close analysis and comprehension, not only in the context of official development assistance, but also in the context of stabilisation and anti-crisis functions - that is, the functionality of the GFSN.

> Russia and the anti-crisis function in the global financial architecture
> To date, the evolution of Russia from a recipient of resources to the status of a donor country is fully completed.
> Russia plays a vital role as a regional donor among the Eurasian countries. Financial assistance is provided both through official development assistance and macro-stabilisation support. Macro-stabilisation support from Russia in relation to Armenia, Belarus, Kyrgyzstan and Tajikistan was provided in the form of bilateral loans, debt cancellation, and gratuitous assistance. As a rule, this kind of assistance has made it possible to mitigate the budgetary and debt vulnerability of countries, as well as to refinance the existing debts to the Russian Federation. According to a conservative estimate, in 2009-2019 Armenia received $0.5 billion, Belarus $4.4 billion, and Kyrgyzstan $0.3 billion. In the case of Kyrgyzstan, the volume of bilateral support from Russia in 2016-2019 alone almost doubled the volume of financial resources received from the IMF and the EFSD for 2009-2019. In addition, at the multilateral level, Russia, being the largest shareholder of the EFSD, significantly influences the maintenance of macroeconomic stability throughout the region.
> Russia's active participation in the field of international development assistance at the multilateral and bilateral levels opens up opportunities for the country to maintain economic stability in the region, promote sustainable development, promote and protect its own economic interests, realise the potential of mutual trade and investment, and stimulate integration processes.

There is competition, complementarity, and cooperation in the global financial safety net. There is a lively discussion among representatives of international financial organisations about the pros and cons of the current state of affairs. In my opinion (which is shared by many researchers), the regionalisation and prosperous multilevel structure of the GFSN is more a boon than a problem. The role and weight of the regional level of GFSN is growing. This kind of "positive de-globalisation" and the strengthening of non-globalisation levels is a solution to the problem of unequal GFSN coverage. With new benefits, new risks inevitably appear. First of all, this concerns the issues of coordination within the GFSN and the risks of suboptimal resource allocation (these discussions are carried out using the terms moral hazard and facility shopping).

We come to the most important thing. A preliminary analysis of the reactions of various anti-crisis elements of the world financial architecture to the spread of the coronavirus infection suggests the high importance of global institutions. At the global level, the IMF responded to the severity of the situation extremely quickly and fully. As part of its emergency response programmes, the IMF has expanded the limit on available funds to $1 trillion. By the end of April 2020, 103 countries (more than half of the members of the organization!) have sent applications for emergency funding. The IMF has doubled access to its emergency instruments, approved debt relief for 25 low-income countries through a reformed Catastrophe Containment and Relief Trust (CCRT) and created a Short-Term Liquidity Line to help manage liquidity. By its actions, the IMF has strengthened its place at the centre of the GFSN, which was once again recorded in the G20 Joint Communiqué. The actual strengthening of the IMF (centre) contradicts the thesis of de-globalisation.

The G20 and the Paris Club, with the support of the IMF and the World Bank, have agreed for the first time to temporarily suspend debt service payments for 77 low per capita and lower middle income countries. The initiative is expected to provide liquidity to help these countries cope with the health and economic impact of the crisis. This example shows the possibility and presence of political will for coordination in a crumbling world. This initiative was also supported by China.

At the regional level, the European Stability Mechanism (ESM) has announced its commitment in principle to provide massive financial support. The ESM is ready to provide an anti-crisis credit line totalling up to 2% of the GDP of the state that has requested such support. This corresponds to approximately 240 billion euros for the 19 states of the eurozone. The EFSD also provides its resources for the member countries and the EFSD (the first "anti-coronavirus" loan was approved on August 3). At the regional level, the MDBs did not remain aloof from providing anti-crisis support. Thus, ADB presented a 20 billion dollar package of comprehensive support measures for developing countries-participants for $20 billion in order to mitigate and overcome the consequences of the COVID-19 pandemic. During 2020-21, the WB will allocate up to $160 billion to combat the spread of COVID-19 in the form of long-term financial support to states.

What conclusions can be drawn from this?

> *During the 2010s, financial resources dedicated to combating crises and the goals of macroeconomic stabilisation increased approximately tenfold. The global financial safety net has undergone significant institutional evolution - both at the level of institutions and in the interaction between them.*

Given the magnitude of this crisis, the most effective way to support the global economy is through an integrated response and mobilisation of resources and expertise at all levels of the Global Financial Safety Net. This is what we see. The entire arsenal of available highly capitalised instruments is being used - the IMF, regional financial mechanisms, budget support from international development banks and the restructuring of bilateral financial support, coordinated at the G20 level.

Global financial institutions for development - such as the IMF, World Bank and Asian Development Bank - were in demand in 2020 and did not cede their functions to other institutions and nation states. The IMF in particular has worked efficiently and quickly, proving its place - following the G20 language - at the centre of the global financial system. This means that in practice, the Global Financial Safety Net - a key part of the global financial architecture - does not crumble. Rather, it follows the path of complication, increased multi-level and co-optation of new instruments and financial resources.

The role of bilateral financial support, based largely on the realisation of the geopolitical interests of the creditor, will also increase in the current decade. For this reason (along with others), it is in the interests of the world community and Russia to preserve the multilevel world financial architecture in terms of anti-crisis financing, which is provided to states in times of need.