

POLICY BRIEF



Crisis Recovery for All: How to Make the Global Financial Safety Net Work for Developing and Emerging Countries

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Financing for Sustainable Development

Abstract

Predictable, voluminous, and immediate crisis finance in a key currency is essential to prevent a temporarily illiquid but otherwise solvent country from falling behind in sustainable development. This is especially true for developing and emerging countries that cannot borrow in their own currency. For these countries, a liquidity shortage can quickly escalate into a balance of payments or a solvency crisis. Yet, access to crisis finance is highly uneven in the Global Financial Safety Net (GFSN)—the set of institutions and arrangements that backstop countries in financial distress. With the International Monetary Fund (IMF) at its centre, the GFSN also includes Regional Financial Arrangements (RFAs) and central bank currency swaps (BSAs).

The GFSN has evolved into a highly complex and mostly uncoordinated system of these global, regional, and bilateral mechanisms. Despite its increasing volume and complexity, many developing and emerging countries remain underserved in terms of available crisis finance.

This policy brief evaluates the relative contribution to crisis recovery of each crisis finance mechanism in the GFSN. Considering an empirical study on developing and emerging countries' recovery from crises with and without access to either of the elements of the GFSN, this policy brief shows that (i) all GFSN elements entail liquidity effects that improve developing and emerging countries' crisis resilience, (ii) countries that rely solely on the IMF forego the beneficial effects of RFA and swap liquidity that can enhance crisis recovery additionally and at more favourable conditions. The results show that Africa is a blind spot in terms of coverage, which is of particular concern given that many countries in the region face external vulnerabilities.

With its convening power for reform of the international financial architecture, the G20, with the African Union as a new member, is uniquely positioned to ensure that the GFSN better meets the needs of developing and emerging countries in general and African countries in particular. To this end, this T20 policy brief recommends the following two key reforms to address the existing deficiencies of the GFSN: (i) expanding access to IMF unconditional financing; and (ii) operationalising the African Financial Stability Mechanism.

Keywords: Global Financial Safety Net, GFSN, Central Bank Currency Swaps, Regional Financial Arrangements, African Financial Stability Mechanism

Diagnosis

Access to crisis finance plays a critical role in determining the severity and duration of financial crises. By providing a resilient government repayment capacity, access to crisis finance can prevent destabilising liquidity runs (Corsetti et al., 2006), mitigate reductions in bank lending (Bahaj & Reis, 2022), and thereby reduce the need to pursue austerity measures to sustain repayment capacity (Mishra, 2023). Accordingly, in illiquid but otherwise solvent economies, access to ample and timely crisis liquidity is essential for preventing temporary funding constraints from escalating into deeper GDP contractions and prolonged economic crises (Pazarbasioglu & Saavedra, 2024). This is particularly important for developing and emerging countries with higher vulnerabilities to external shocks and less fiscal space than advanced economies to buffer a crisis (Rojas Suarez 2023).

However, during a crisis, often developing and emerging countries do not have sufficient liquidity buffers either through foreign exchange reserves or the means to access liquidity in global financial markets. Hence, they need to have access to crisis finance from outside when they are hit by external shocks. Hence, access to the mechanisms of the Global Financial Safety Net (GFSN) is essential.

The GFSN comprises the set of institutions, arrangements, and agreements that provide crisis finance to otherwise solvent countries in temporary balance of payments distress. While the International Monetary Fund (IMF) was the sole crisis finance provider after the end of World War II, during the last decades, the amount and diversity of crisis finance through the GFSN has expanded substantially. Next to the increasing IMF lending capacity in conditional lending lines that include reform obligations, the IMF expanded temporarily available

lending lines that would be immediately available without reform conditions. Further, regional financial arrangements (RFAs) and bilateral currency swap arrangements (BSAs) between central banks have emerged as key elements of GFSN crisis finance.

In an empirical investigation of 135 countries between 2000 and 2020, we find that GDP recovery sets in faster and stronger in countries with access to the GFSN than in those without. To evaluate GFSN intervention effects on crisis resilience, we match treated countries experiencing financial crises and receiving IMF loans, BSAs, or RFAs with synthetic control groups constructed from weighted combinations of untreated crisis countries. The matching is based on pre-crisis growth trajectories, and the treatment effect is measured as the cumulative difference in post-crisis GDP growth between treated and synthetic control groups over a four-year forecast horizon, with statistical inference based on placebo tests that estimate standard errors from the distribution of treatment effects when the synthetic control method is applied to untreated countries.

The results indicate that access to GFSN instruments improves GDP growth recovery after a crisis event by between 0.7% and 1.7%. The effects are strongest for BSAs (1.7%) and weakest for RFAs (0.7%). We relate these findings to the swift, bold, and reasonably priced manner through which BSAs can be accessed by those countries that are selected as BSA partners. Second, having access to one or more elements of the GFSN has a signaling effect that entails market confidence in the case of a temporary liquidity crunch. Against this background, the fact that “the global financial safety net has both gaps and uneven coverage,” as the FFD4 Outcome Document (10 March 2025) states, is of vital relevance to address.

Recommendations

As Goda et al. 2024 show, in particular, developing and emerging countries are excluded from further GFSN elements beyond the IMF. This structural exclusion is on the one hand driven by the dominance of few central banks that offer BSAs under the premise of their national interest in terms of securing trade finance and their domestic financial system, implying that only 26% of developing countries (35 out of 136) and 13% of African countries (7 out of the 54) have had access to BSA. On the other hand, it is driven by geographic unevenness of RFAs, with only 20% of African countries having access to a regional pool of liquidity. As a result, it is the particularly vulnerable, less integrated, and less developed economies that face the above-mentioned risk of recovery from a crisis. At the same time, it is particularly this group of countries that is at higher risk of debt crises (Pazarbasioglu & Saavedra, 2024), and for which a swift liquidity injection would be key in the case of temporary financial distress.

In 2024, the G20 reaffirmed their commitment to “a strong, quota-based, and adequately resourced IMF at the centre of the global financial safety net” (G20 Leader's Communiqué 2024). This year, the G20 is uniquely positioned to follow through on their commitment.

The South African G20 presidency and the FFD4 co-facilitators, including Zambia, are a strong convening power together with the G20 voting majorities in membership and governance of the IMF. As the FFD4 process has put “further strengthen(ing) the global financial safety net with the IMF at its centre, amidst increasing systemic risks and growing frequency and intensity of crises” (FFD4 Outcome Document 10 March 2025, p. 21) on the agenda, the G20 is well

positioned to further advocate for structural reforms to achieve the aim of the FFD4.

All otherwise solvent countries should have access to timely, voluminous, favourably conditioned, and reasonably priced immediately available crisis finance to enable a swift recovery from temporary shocks. To this end, the G20 could task the G20 Eminent Persons Group on Global Financial Governance to elaborate proposals for reforming IMF lending policy, at least for loan arrangements with countries in acute temporary financial distress to make IMF funds more accessible and reduce the weight on domestic demand and debt burden of the debtor countries for enabling swift recovery from crises (Vasic-Lalovic et al. 2025).

First, two feasible options could be implemented immediately: (a) target surcharges, which the IMF holds as precautionary balances and can be eliminated for African countries without affecting the ability of the IMF to perform its duties (Libman and Colodenco, 2025); (b) lift access limits for unconditional immediate crisis financing for all countries, as the IMF had practiced during the COVID-19 pandemic in the reform of Rapid Financing Instrument and Rapid Credit Facility. The major concern that has forestalled reforming unconditional lending facilities is the need to preserve crisis response capacities of the IMF. Hence, if the G20 aims to push towards a flexibilisation of an attractive lending kit of the IMF for low- and middle-income countries, the time for the G20 members in the IMF is right to address the refinancing structure of the IMF (Kring et al. 2023; Colodenco et al. 2025): a quota-based and realigned IMF refinancing needs to be at the center of the ongoing 17th Quota Review to provide substantial room for reforms of the lending kit – financing- and governance-wise.

Second, the G20 could encourage closing the geographical bias in the GFSN by enhancing efforts to set up an African regional element of the GFSN with bringing the African Financial Stability Mechanism (AFSM) to full functionality. Again, agreeing on an adequate refinancing of any such new mechanism is at the same time key and a challenge: for example, the T20 advocated for reallocating SDR towards refinancing African Financial Institutions, such as an AFSM to set up financing and investment capacity with a regional focus on Africa (Development Reimagined 2023).

The G20 emphasised the coordination of GFSN components and declared the “Principles for Cooperation between the IMF and Regional Financing Arrangements” in Cannes (2011). As long as strengthened coordination between the GFSN elements is not in sight, the findings of UNCTAD TDR 2025 show that those countries excluded from the GFSN need to strengthen their crisis recovery capacity by accessing more than one crisis finance mechanism. Since most developing and emerging countries cannot gain access to BSAs, the G20 could take on its role in pushing for not only more binding agreements that also include central banks, for example, through the Bank for International Settlements, but also for strengthened RFAs that cover blind spots of the GFSN.

Together with an equitable GFSN access, the international financial system including all creditors together with debtors of the developing world, would then be able to balance access to short-term timely and favourable liquidity support with long-term debt sustainability.

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