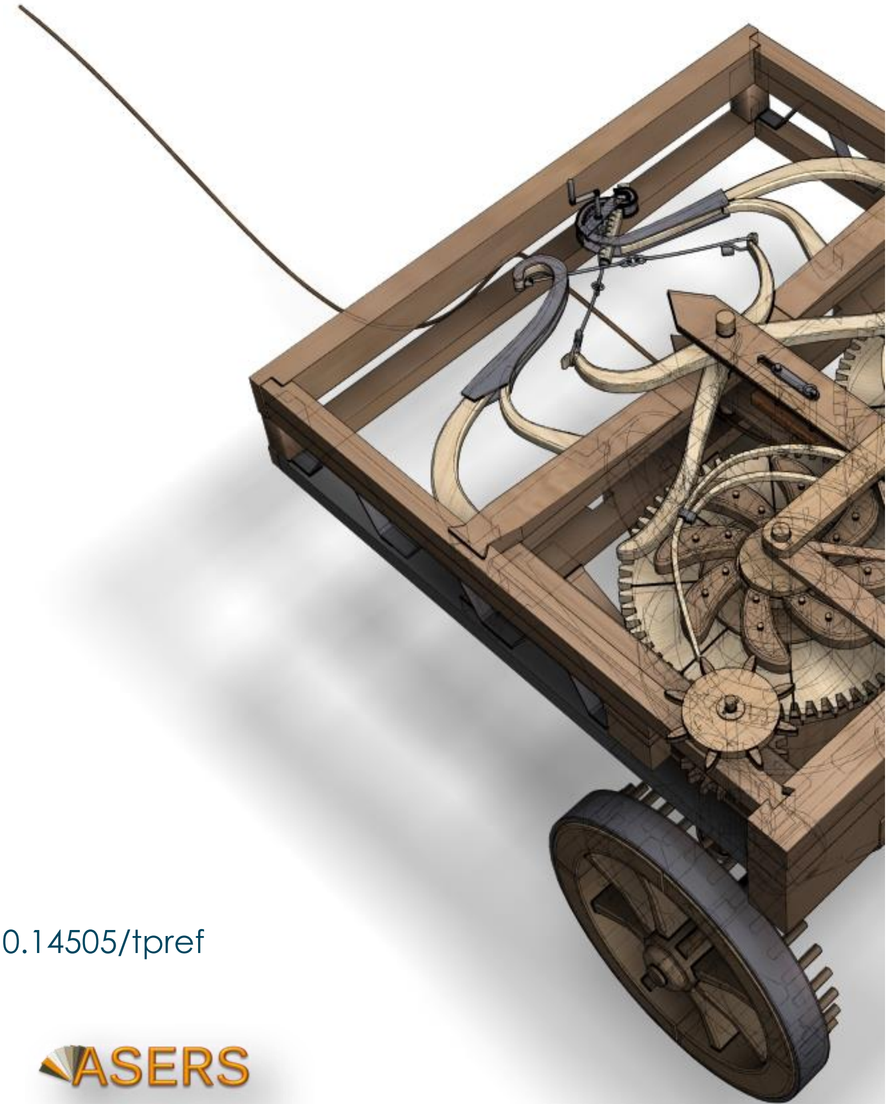
Theoretical and Practical Research in Economic Fields



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Spring Issue
Theoretical and Practical Research in Economic Fields

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International Financial Institutions and Their Role in Promoting the Stability of The Global Financial System

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Abstract: The study aims to substantiate the role of leading international financial institutions based on the analysis of their activities during the global and regional financial and economic crises. To achieve this goal, the following methods were used: comparison, generalisation, dynamic and structural analysis. The study analyses in detail the activities of international financial institutions, particularly the International Monetary Fund, the World Bank Group, and other regional financial organisations, aimed at overcoming the consequences of financial and economic crises (the Asian financial crisis of 1997-1998, the Global Financial Crisis of 2008-2009, and the COVID-19 pandemic crisis of 2020). Based on the analysis, the study summarises the main instruments, methods and approaches used by international financial institutions to promote financial stability. The study established that the main instrument is credit financing. To assess the significance of financial programmes, the amount of financial assistance was compared with the gross domestic product of individual countries that received such funding programmes. The study determined that the directions and conditions of such loan programmes differ depending on the organisation that provides them and the country that receives them. The study found that international financial institutions, particularly the IMF and World Bank Group, played a crucial role in stabilizing the global financial system during crises. The analysis of financial support, GDP growth, and inflation data highlights their impact. These findings are valuable for scholars and government officials in understanding the importance of international coordination in addressing economic crises.

Keywords: economic crises; debt policy; fiscal policy; default; International Monetary Fund; World Bank.

JEL Classification: F33; E44; G01.

Introduction

The stability of the global financial system is a key aspect of the sustainable development of the global economy. It ensures predictability and trust of market participants, facilitating investment, growth of investments and rational allocation of resources. Overall, the stability of the global financial system is a dynamic process that requires constant monitoring, analysis and response to constantly changing conditions and challenges. Since global financial stability implies the ability of the economic system to function without critical disruptions or crises, ensuring the stability and predictability of markets, investment activity and overall economic development, it is a key aspect of maintaining global economic prosperity and promoting economic growth (Ali *et al.* 2023).

Creating and maintaining global financial stability requires not only effective macroeconomic policies, financial market regulation, and risk and crisis management by governments, but also international cooperation (Gulaliyev *et al.* 2017; Chorna 2009). Therefore, this process depends on continuous improvement of regulatory mechanisms, as well as on effective interaction between states, international financial institutions and other participants in the economic and financial system. Today, the global financial system is in a difficult position (Yudina *et al.* 2024). On the one hand, there is a recovery from the COVID-19 pandemic, but on the other hand, several factors, such as the war in Ukraine and related sanctions, inflationary processes, and increased regulatory pressure, which may slow economic growth, create uncertainty and risk, undermining global financial stability (Roukanas and Vitzileos 2023; Tiurina *et al.* 2023). Also, in 2008, Georgia's economy was severely damaged as a result of the war with Russia, to which was added the impact of the global financial crisis. Under these conditions, if it were not for the financial assistance of international financial organizations and individual countries, the country would not have been able to overcome the severe consequences of the crisis for a long time. The scale of the aid of these organizations in the fight against the pandemic was also great; It is also worth noting the large scale of state support (Silagadze *et al.* 2022). In this context, international financial institutions should implement appropriate programmes to maintain financial stability, as they did during previous economic downturns in the global economy.

International financial institutions have a significant impact on maintaining global financial stability (Dobroskok *et al.* 2019). However, their activities are accompanied by criticism, prejudice and several problems that affect the effectiveness of their work and perception by recipient countries and the international community. The issues of ensuring global financial stability and the role of international financial institutions in this process were studied by Daugirdas and Lions (2023), Alami *et al.* (2022), and Stiglitz (2001). The results of the studies by Chandrasekhar (2021) and Elnahass *et al.* (2021) confirm that international financial organizations play a significant role in ensuring the stability of the global financial system through policy coordination, the development of standards and regulations, and the provision of financial assistance in times of crisis. At the same time, Khor *et al.* (2022) identify that the reason for this is that national institutions cannot keep up with the dynamic changes in the global economy and do not have sufficient reserves to maintain financial stability in the event of a long-term crisis.

Therefore, there is a need to manage the international financial architecture. International financial institutions (IFIs), with their global vision, should play a key role in this process. Hua *et al.* (2023) establish the fact that countries, especially those that are less developed or economically dependent, are subject to the influence of other countries or international organizations in the field of finance and economic reform. This can include various aspects such as credit terms, trade agreements, international standards and policy conditions imposed by more developed countries or international financial institutions on less developed or dependent economies and financial systems.

Therefore, such financial institutions play an important role in shaping the financial stability of both individual countries and the world. Thus, despite various national and regional financial mechanisms and initiatives, many countries have turned to international financial organisations, such as the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank, to overcome the consequences of the crises. However, these studies also point out that the role of international financial institutions, particularly the IMF, in overcoming this crisis is a subject of ongoing debate. Some argue that IMF policies have been beneficial for the economic development of countries, while others criticise them for austerity and neoliberal reforms that have contributed to the development of the shadow economy. The Asian financial crisis damaged the economies of Ukraine, Georgia and the world relatively less, but it proved painful for the economies of the Republic of Korea, Thailand and Indonesia; During the global financial crisis, the economies of the world, Georgia, the Republic of Korea, Ukraine, and Thailand decreased more; During the pandemic, the economies of the world, the Republic of Korea, Thailand, Indonesia, and Georgia were cut short (Zubiashvili *et al.* 2023).

Despite the existing developments, a thorough study is needed to determine the role and effectiveness of international financial institutions in supporting the financial and economic systems of individual countries, in the context of their impact on global financial stability, during periods of economic recessions and financial crises. There is also a need to identify and summarise the methods and tools used by international financial institutions in cooperation with different countries to ensure their financial stability and the stability of the global financial system. Therefore, given the above, the study aims to substantiate the role of international financial institutions in ensuring global financial stability. This study will attempt to analyse the actions, tools and methods used by IFIs to stabilise the global financial system in times of crisis, based on the structural and global approaches, which assume that the stability of the financial and economic systems of individual countries affects the stability of the global financial environment.

1. Literature Review

James (2024) examines the International Monetary Fund's involvement in Europe following the 2008 global financial crisis, particularly focusing on its role in Greece, Ireland, Portugal, and Cyprus. The researcher explores how the IMF, alongside the European Central Bank and the European Commission (the "troika"), implemented adjustment programs aimed at stabilizing these countries' economies. The author also examines the ways in which these initiatives impacted the development of political populism in Europe, including the emergence of movements like Brexit.

In their paper, Coe and Yeung (2015) examine how cross-border economic activity is driving increased integration and interdependence in the global economy. The scholars introduce the concept of global production networks (GPNs), a new form of economic organization that unites various actors across national boundaries to create and capture economic value. The authors argue that economic development in today's interconnected world can no longer be understood within the traditional territorial limits of individual nations or regions. Instead, GPNs serve as platforms for transnational collaboration and competition, transferring value and influencing economic growth across industries and economies.

Ballouk *et al.* (2024) offer a comprehensive scientometric review of the literature on financial stability. The authors hope to fill in the knowledge gaps left by conventional literature reviews by offering an updated conceptual framework for comprehending financial stability through the use of a large-scale study. The researchers propose a study agenda that highlights the significance of macroprudential policy in managing financial cycles and systemic risk, citing systemic risk and macroprudential policy as two major advancements in the area.

Kranke (2019) examines the development of institutional collaboration between the World Bank and the IMF by contrasting trends prior to and following the global financial crisis of 2008. Through over 90 expert interviews and official documentation, the author reveals that, while cooperation rules between the two institutions typically tightened during crises, they were unexpectedly loosened following the global financial crisis. According to the report, this transition was caused by a change in the integrative to more fragmented ideas of future cooperation held by officials from both organisations. This change is particularly evident in how the Financial Sector Assessment Programme (FSAP) and Poverty Reduction Strategy Papers (PRSPs) were discussed and implemented, highlighting the reflexive nature of inter-organizational relationships and the role of staff in shaping cooperation.

In their research, McKillop *et al.* (2020) offer a thorough analysis of financial cooperatives and their function in numerous nations' financial systems. The authors look at the behavioural and structural traits of financial cooperatives in the first section of the review. It highlights how these organisations have remained stable and well-liked while being for-profit and putting a strong emphasis on member benefits, especially during difficult periods like the global financial crisis. The effectiveness and contribution of financial cooperatives to the actual economy are the main topics of discussion in the second section.

Nasreen and Anwar (2023) investigate how central banks in five South Asian countries adjust their monetary policies in response to financial stability. Using the auto-regressive distributed lag (ARDL) and vector autoregressive (VAR) approaches with time-series data, the study finds that financial stability significantly influences monetary policy decisions in all countries. The findings suggest that central banks respond to growing output gaps and declining exchange rates by tightening monetary policy; however, the response to inflation gaps is less pronounced in the central banks of Pakistan and India.

Smets (2018) investigates the connection between financial stability and monetary policy, especially in the context of the current financial crisis. The author addresses three key questions: the effectiveness of macroprudential policy in maintaining financial stability, the impact of monetary policy on risk-taking and financial stability, and the potential risk of "financial dominance," where financial stability concerns might undermine the central bank's price stability mandate. The researcher contends that monetary policy ought to take financial risks into account, even though macroprudential policy needs to be the major weapon for preserving financial stability. He suggests that central banks may need to "lean against the wind" to address financial instability, while still focusing on price stability in the medium term.

These studies collectively explore the crucial intersections of financial stability, economic development, and institutional cooperation in the global economy. They emphasize the role of international institutions, like central banks and financial organizations, in responding to financial crises and managing systemic risks. By examining frameworks such as global production networks, monetary policy, and financial cooperatives, the research highlights how cross-border collaboration and effective policy measures are essential for sustaining stability. The studies also underline the importance of adapting to emerging challenges, such as financial instability and economic fluctuations, to ensure resilient and sustainable economic growth in an increasingly interconnected world.

2. Materials and Methods

The study is based on a synthesis of two approaches: the globalisation approach, which recognises the interdependence of economies and financial markets and the need for concerted action to ensure stability and resilience in the international financial system, where one of the key aspects is the development of international mechanisms for cooperation and control over financial areas, and the structural approach, which, in the context of global financial stability, focuses on analysing the structure of the financial system, its components and interrelationships to identify factors that affect its stability. The main structural components of the global financial system are the financial systems of individual countries, their stability and their impact on the global stability of the financial and economic sphere.

To identify the crisis periods, the author used the method of statistical grouping and formed a statistical sample of such an indicator as the Gross Domestic Product (GDP) expressed in USD for the period 1994-2022, which, using the method of graphical display, was presented in the form of a line graph. The data were taken from the World Bank's (2024a) information database, where GDP figures are displayed following the World Bank's national accounts and the national accounts data files of the Organisation for Economic Co-operation and Development (OECD).

To assess the role of international financial institutions in promoting global financial stability, a thorough analysis of the actions of the IMF and the World Bank Group during global crises was conducted, and the activities of the Asian Development Bank and the European Bank for Reconstruction and Development were partially analysed. IMF reports, publications, and programme documents, including an overview of the development and implementation of support programmes for Thailand, Indonesia, and the Republic of Korea in 1997-1998 (Lane *et al.* 1999), the International Monetary Fund (2009) Annual Report, and the International Monetary Fund (2022) COVID-19 financial assistance and debt service relief were addressed in the study. The analysis was also based on the World Bank Group's policy documents and publications, including the report on the social and economic impact of the financial crisis in East Asia (Atinc and Walton 1998), the World Bank (2011) response to the global economic crisis, and the World Bank (2020) approach to responding to the COVID-19 crisis. The main instruments used by international financial institutions to influence financial stability, both at the level of individual countries and at the global level, were identified and classified using the results of the analysis and the methods of abstraction and generalisation.

To assess the significance of the approved and implemented financial assistance provided by international financial institutions to individual countries to stabilise their economies and financial systems, the method of comparing the amount of funding and the GDP of these countries was used, which provided calculated data as percentages. To determine the effect of the instruments used by international financial institutions to promote financial stability, in particular during the Asian crisis of 1997-1998, a statistical sample of macroeconomic indicators was formed, and their dynamic analysis was carried out (the growth rate was calculated). As macroeconomic indicators, GDP was chosen to be expressed not in the national currencies of the countries, but in USD following the official exchange rate of national currencies, which made it possible to assess not only economic development but also the stability of the financial system in the context of devaluation trends of the national currency against the freely convertible currency, which is the USD. Another macroeconomic indicator that was analysed was the inflation rate, which is a factor that can destabilise the economy and is a priority for the IMF when implementing programmes to ensure the stability of financial systems.

3. Results

Global financial stability is a state of the world economy in which financial systems function smoothly, ensuring a constant flow of capital and payments, access to financial services for all economic participants, and the absence of sharp fluctuations in exchange rates and asset prices (Smets 2018). It is crucial for the prosperity of the global economy and contributes to sustainable growth, reducing risks and improving people's living standards. Financial stability is closely linked to the occurrence of crises (Ballouk *et al.* 2024). On the one hand, a strong and resilient national financial system is a key factor in preventing crises. On the other hand, crises in the financial systems of both small and developed global dominant countries can seriously undermine global financial stability, causing a chain reaction of negative consequences.

The resilience of individual countries' financial systems is the foundation for global financial stability (Malyarets *et al.* 2024; Kutsmus *et al.* 2024). The modern global economy is closely interconnected. Therefore, countries of the world depend on each other in many aspects (Coe and Yeung 2015). The financial systems of countries around the world are intertwined through trade, investment, capital flows and other economic links (Pürhani *et al.* 2022). Problems in one country can quickly spread to other countries due to these interconnections. For example, the bankruptcy of a large bank in one country can lead to a financial crisis in other countries (as it did in 2008-2009) (Turner 2010). The instability of the financial system of one country may harm global markets, leading to fluctuations in exchange rates, share prices and other financial assets (Rexha *et al.* 2024). The study of the problems of ensuring global financial stability forms a classification of the most relevant approaches to this process. It is based on macroeconomic approaches, which are primarily monetary policy (Nasreen and Anwar 2023). Central banks use monetary policy instruments, such as interest rates, to manage inflation, exchange rates and liquidity in the economy. Fiscal policy also plays an important role. Governments can use fiscal policy, such as taxes and spending, to stimulate the economy during downturns and to control inflation during periods of excessive growth (Monaienko *et al.* 2024; Omurgazieva *et al.* 2024; Paliova 2024).

Another important approach is regulation and supervision. Regulators set rules for financial institutions, such as banks, insurance companies and investment funds, to limit risks and protect customers. In turn, supervisory authorities monitor the activities of financial institutions to ensure compliance with risk management rules and requirements. In addition, regulators and supervisors from different countries cooperate to exchange information and coordinate their actions (Pan 2010). The next approach is based on reducing systemic risks. It stipulates those financial institutions should regularly conduct stress tests to assess their resilience to various economic shocks. It is important to note that systemically important financial institutions, which can put the entire financial system at risk, should be subject to stricter rules and supervision. Regulators can use macroprudential tools to limit the risks that can accumulate in the financial system (Lo Duca *et al.* 2023). Lastly, it is an approach based on international cooperation and coordination, which involves cooperation between countries and international organisations to develop common management strategies to prevent financial crises. It includes information exchange, policy coordination and the creation of mechanisms for rapid response to crises (McKillop *et al.* 2020).

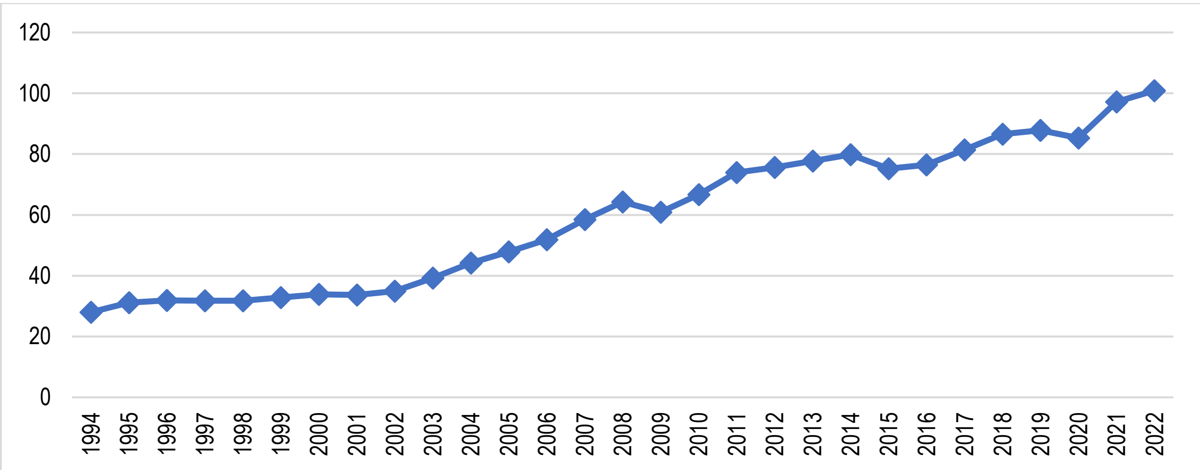
Thus, international organisations, or rather their activities, are part of the overall system of approaches used to build financial stability, both at the level of national economies and globally. International financial institutions (organisations) perform specific functions in contributing to the financial stability of individual countries and the global financial system (Shahini 2024). In particular, it implies research and analysis of various aspects of the global economy and finance to identify trends, problems and possible solutions, develop standards, policies and recommendations for countries and regions on economic management, regulation of financial markets and other issues, and promote economic development and investment: by supporting financing in various sectors, including infrastructure, healthcare, education and agriculture, as well as by promoting private investment and developing financial markets.

However, among the above instruments, the main and most obvious and tangible is the provision of financial support. International financial institutions provide financial support to countries and regions in the event of economic and financial crises, balance of payments problems, or to finance development projects (Martin and Simmons 2013). This may include loans, grants, currency exchange and other forms of financial assistance, including those aimed at overcoming inflation. The main international financial institutions that play an important role in ensuring the stability of the global financial system is the IMF, which oversees the global economy, provides loans to countries in difficulty and promotes international cooperation in financial policy, the World Bank, which provides loans and grants to developing countries, supports reforms and promotes economic development, as well as regional institutions such as the European Bank for Reconstruction and Development and the Asian Development Bank (Niyazbekova *et al.* 2023).

These kinds of international financial institutions have been essential to the long-term economic recovery as well as the quick response to crises. A more thorough examination, however, shows that although financial assistance is essential, discussions concerning policy control and sovereignty are frequently prompted by the conditions linked to loans. For example, although the goal of the IMF's structural adjustment programs (SAPs) was to bring macroeconomic stability back, the recipient nations' social inequality was frequently made worse by the requirements for market liberalisation and fiscal austerity. This suggests that stabilising economies will require a delicate balancing effort to prevent long-term economic stagnation or the escalation of social unrest.

The globalisation of the economy has made countries interconnected, and crises are large-scale and devastating. In this complex environment, it is possible to assess the role of international financial institutions in promoting financial stability at the global level by analysing how they have been involved in preventing, mitigating and resolving economic and financial crises. Financial crises are accompanied by a depreciation of local currencies and a decline in investment activity. The decline in production, and unemployment, all which harm GDP. Therefore, GDP is an indicator of not only economic but also financial stability. Therefore, it is necessary to focus on the most significant crises in recent decades that had a significant negative impact on global GDP in 1997-1998, 2008, 2009, and 2020 and to examine the activities of international financial institutions aimed at supporting global financial stability during this period (Figure 1).

Figure 1. Dynamics of global GDP, billion USD



Source: compiled by the authors based on World Bank (2024a).

The IMF is a key international organisation dedicated to financial stability and economic development (Samedova *et al.* 2022). It is a specialised United Nations Agency that promotes international cooperation in the field of foreign exchange, stimulates the expansion and balanced growth of world trade, helps to stabilise exchange rates, assists member countries in overcoming balance of payments difficulties, and organises consultations and cooperation with international organisations on issues within its competence. The responsibility for improving the performance of the financial sector lies with national authorities (Karimli *et al.* 2024; Trusova *et al.* 2018). However, given the potential macroeconomic consequences and regional or global spillover effects of the banking crisis, the IMF and other institutions are instrumental in ensuring the successful functioning of financial sectors. The main influence ways of IMF in promoting financial system stability are multilateral supervision, conditionality loans, and technical assistance (Kranke 2019; Spytska 2023). Through its bilateral surveillance, the IMF seeks to improve macroeconomic conditions and policies by maintaining an ongoing dialogue with member countries' authorities. These measures contribute significantly to the stability of the financial sector, as a stable macroeconomic environment and a strong external economic position are key factors for a sound and efficient financial system.

The financial crisis in East Asia in 1997-1998 demonstrated the region's vulnerability to cross-border capital flows. Financial institutions and businesses have been actively and inexpensively borrowing in USD, often for very short periods. Due to the sudden outflow of foreign capital, the national currencies of the countries in the region began to fall rapidly, leading to the bankruptcy of many borrowers. Authorities in the region have spent billions in cash reserves in vain, trying to keep their currencies alive. Indonesia, South Korea, and Thailand turned to the IMF, which allocated about 120 billion USD in financial assistance on the condition that the recipient countries would have to tighten monetary, tax, and financial regulatory policies – such measures were unpopular in these countries, causing dissatisfaction with the current government and increasing instability (Fischer 2005). The design of IMF-supported programmes in Thailand, Indonesia, and Korea reflects these similarities and differences (Lane *et al.* 1999). These programmes have caused considerable controversy on many issues. First, some argue that these are simply the same old IMF fiscal austerity measures that are inappropriate for countries suffering from other problems. Second, critics argued that by attempting not only to restore macroeconomic stability but also to carry out structural reforms, the sovereignty of the financial policy of national economies was violated (Kho and Stulz 2000). However, as shown in Table 1, all these countries turned to the IMF to help stabilise their financial systems, and the IMF implemented assistance programmes that helped contain the crisis relatively quickly and prevent it from spreading globally.

Table 1. The amount of financial support provided by the IFI to selected East Asian countries in 1997-1998

Indicators	**IMF loan programme, billion USD**	**% of the country's quota in the IMF**	**GDP in 1997, billion USD**	**% per GDP**
Korea	20.1	1938	402	5
Indonesia	10.1	490	202	5
Thailand	4	505	133	3

Source: compiled by the authors based on Lane *et al.* (1999), Atinc and Walton (1998), World Bank (1999).

Following the table, the amount of credit assistance received by East Asian countries was substantial, especially comparing the amount of assistance and GDP of the countries, and also pay attention to the ratio of funding to quotas of these countries in the IMF, as Indonesia and Thailand received funding almost five times their quotas, and Korea almost twenty times. Hence, the importance of credit financing can be estimated.

Receiving IMF financing programmes also required improvements in monetary and fiscal policy and important structural reforms aimed at the budget sector, in terms of reducing budget expenditures (Table 2). However, these were not just general requirements, but mechanisms carefully developed by the IMF that had to be implemented.

Table 2. Conditions for receiving financial programmes from the IMF for selected East Asian countries during the 1997-1998 crisis

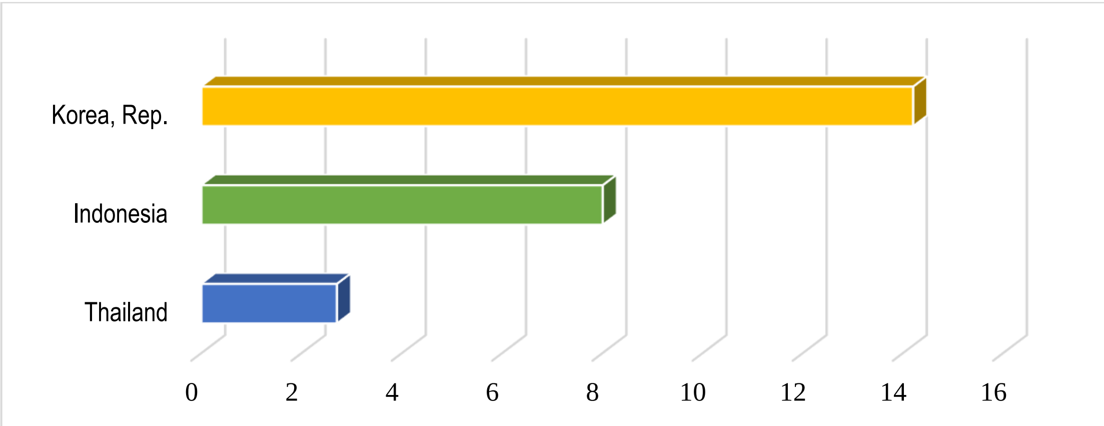
	Indonesia	**Thailand**	**South Korea**
IMF requirements	Fiscal discipline: The IMF demanded that Indonesia reduce its budget deficit by cutting subsidies and raising taxes. Monetary policy: The IMF recommended raising interest rates to curb inflation. Structural reforms: The IMF demanded reforms in the banking sector, the fight against corruption, and improved corporate governance.	Fiscal discipline: cutting public spending and increasing taxes to reduce the budget deficit. Monetary policy: allowing the Batu to depreciate (float freely) to reduce the cost of exports and prevent further speculation. Structural reforms: restructuring the banking sector, fighting corruption and improving corporate governance.	Financial sector reforms: restructuring and recapitalisation of banks, increasing transparency and strengthening the regulatory framework. Corporate restructuring: encouraging mergers and acquisitions, reducing debt and improving corporate governance. Market liberalisation: opening Korean markets to foreign competition and reducing government intervention in the economy.

Source: compiled by the authors based on World Bank (2024a) and Fischer (2005).

The long-term impacts of IMF conditionalities are controversial, despite the fact that they were intended to improve governance and restore fiscal discipline. Examining post-crisis performance, nations such as South Korea recovered and grew quickly because of their strong export industries, which were made possible by liberalised trade policy. However, the significant cutbacks in public spending and subsidies resulted in protracted periods of social unrest and economic instability in nations like Indonesia. This discrepancy suggests that a "one-size-fits-all" strategy may not always work and emphasises the importance of taking home socio-economic factors into account when using conditionality.

However, it is not only the IRF that has contributed to the stabilisation of the financial and economic sphere in the region. The World Bank and the Asian Development Bank had an important impact. The role of these institutions has been multifaceted, covering both immediate crisis response and longer-term efforts to promote economic recovery and stability in the affected countries. First of all, these institutions provided significant financial assistance to the countries that were most destabilised by the crisis. This assistance was provided in the form of emergency loans and financial support packages aimed at curbing financial market volatility, restoring investor confidence and preventing further economic collapse. For example, countries such as Thailand, Indonesia and South Korea received significant financial assistance from the above-mentioned banks, which helped them to survive the crisis and implement necessary economic reforms (Figure 2).

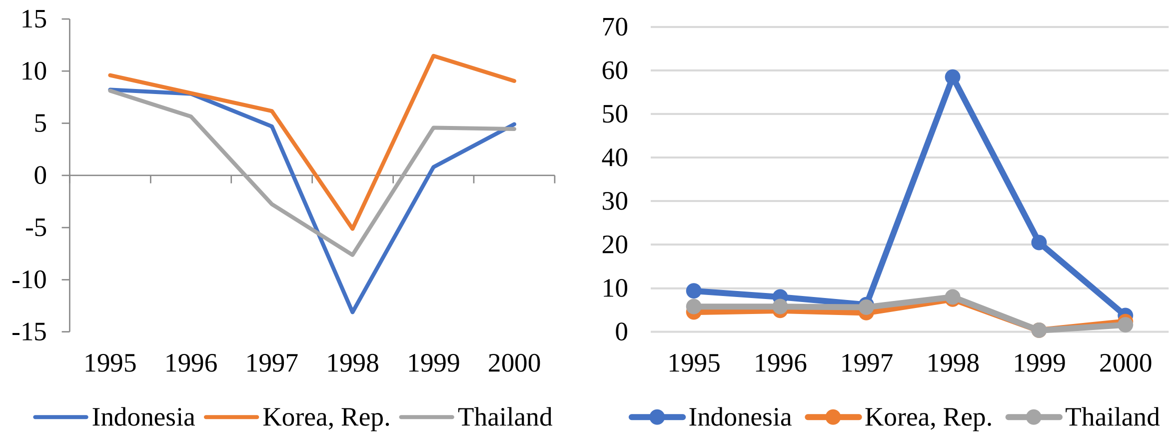
Figure 2. The amount of financial assistance (loans, support pacts) from the World Bank and the Asian Development Bank in 1997-1998, in billion USD



Source: compiled by the authors based on World Bank (2024a).

In addition, these organisations are substantial in facilitating dialogue and coordination among international financial institutions, national governments and other stakeholders to develop comprehensive strategies to address the root causes of the crisis. In addition to providing immediate financial assistance, the World Bank has also focused on promoting long-term economic reforms and policy changes aimed at increasing the resilience and stability of Asian economies. This included support for efforts to strengthen financial regulation and supervision, enhance transparency and governance in financial markets, promote sound macroeconomic policies, and foster greater regional economic integration and cooperation. All the measures taken by international financial institutions and national governments have had a positive effect on stabilising the financial system of East Asian countries and preventing global destabilisation of the global financial system (Figure 3).

Figure 3. Dynamics of: a) GDP growth; b) annual inflation in selected East Asian countries



a) b)

Source: compiled by the authors based on World Bank (2024b; 2024d).

Beyond providing quick financial support, the World Bank and regional development banks play a significant role in mitigating crises. Their focus on long-term economic changes, such strengthening governance and encouraging sustainable development, points to a change away from just reacting to crises and towards resilience building. The Asian Development Bank's emphasis on regional cooperation is a prime example of this, as it has cultivated closer economic relations with nations like the Philippines, Thailand, and Indonesia. Although this strategy has been effective in fostering stability, it also raises concerns over the equality of these reforms because smaller economies might not be able to carry out significant reforms without making internal issues worse.

The crisis of 2008-2009, triggered by the collapse of the US real estate market and the subsequent financial crisis due to the failure of global banking institutions, spread across the globe, with serious consequences for the global economy. This necessitated a response from the international community to maintain the stability of the global financial system, which could have collapsed due to defaults in many countries. The IMF has started to play a central role in managing the global economy and finance, as evidenced by the fact that in 2009 it was allocated about USD 750 billion. The government has allocated USD 1.5 billion to implement support programmes (Stuckler and Basu 2009). The IMF provided loans to countries in financial distress on strict terms, usually combining privatisation, liberalisation and austerity programmes, including in the public sector (James, 2024). Although the terms of these loans were highly controversial and often resulted in significant cuts in social spending, they were intended to help countries stabilise their financial systems and economies. The IMF has been actively involved in efforts to resolve financial problems in the Eastern European region by providing financial support and advice in partnership with the European Union and other international and regional institutions. The IMF has tailored its assistance to address different challenges. Thus, financial support was provided to countries that were most affected by the crisis, reducing currency volatility, fiscal restructuring, and restoring their banking systems. The countries that received support programmes included Ukraine, Latvia, Romania, Serbia and Hungary with over USD 98 billion. Of the 1.5 billion USD disbursed by the IMF, almost 52% went to the above countries (Table 3).

Table 3. IMF country assistance programmes were approved in 2009

Country	billion SDR (Special Drawing Rights)	Approximate amount in billion USD	GDP in billion USD, 2008	GDP in billion USD, 2009	% financing to GDP in 2008	% financing to GDP in 2009
Ukraine	11	16.4	188.11	121.55	8.718	13.492
Hungary	10.54	15.7	158.33	131.07	9.916	11.978
Serbia	0.35	0.52	52.19	45.16	1.002	1.158
Latvia	1.52	2.27	35.85	26.41	6.322	8.581
Romania	11.443	17.05	214.32	174.1	7.955	9.793

Source: compiled by the authors based on International Monetary Fund (2009; 2022), Atinc and Walton (1998).

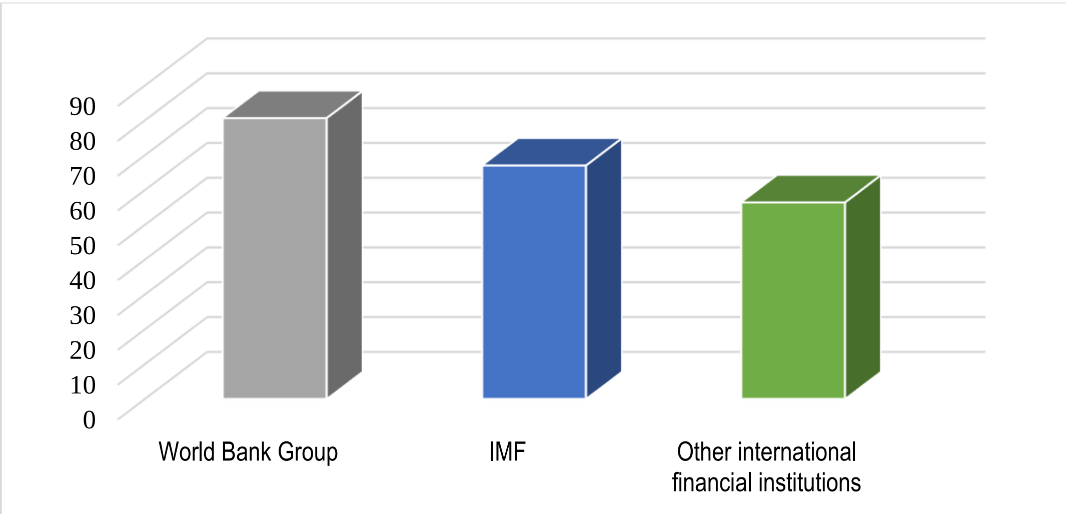
The 2008-2009 global financial crisis highlighted the interdependence of financial institutions around the world and revealed the weaknesses of even the most developed economies. The markets were successfully stabilised by the IMF's prompt action, although there were substantial trade-offs associated with the financial support given to the nations of Eastern Europe. Prolonged austerity measures were imposed on many nations, making it more difficult for them to make investments in long-term growth industries like infrastructure and healthcare. Upon deeper inspection, the post-crisis performance of nations such as Hungary and Ukraine reveals that although financial stability was regained, the social costs – increasing rates of poverty and unemployment – continued for many years. Therefore, more comprehensive strategies that address social and financial stability may need to be taken into account for future initiatives.

As can be seen from the Table 3, Romania, Ukraine and Hungary received the largest packages of financial aid in monetary terms, but comparing this aid to GDP, the ratio is highest in Ukraine. On average, the aid ratio for the above countries was 6.8% compared to their GDP in 2008 and 9% in 2009, respectively. These figures are evidence of the extent to which financial assistance was aimed at supporting the financial stability of these countries and the global system. However, it should be noted that not only Eastern European countries received funding from the IMF as part of assistance programmes to combat the effects of the crisis. For example, in response to its economic difficulties, Georgia turned to the IMF for support. In September 2008, the IMF approved a 750 million USD stand-by credit line to Georgia, equivalent to 50% of Georgia's quota in the IMF. This financial assistance was aimed at maintaining the country's foreign exchange reserves, stabilising the national currency (GEL) and financing the state budget deficit. Cooperation with the IMF has had a positive impact on the economic situation in Georgia. IMF financial support stabilised the exchange rate, restoring investor confidence and improving financial discipline. In 2010, Georgia's economy began to recover, and the country's GDP grew by 6.3% (World Bank 2024a). Aid worth over 7.7 billion USD was also approved for Pakistan; for Mexico, it was 47 billion USD (International Monetary Fund 2009). It should be noted that most countries, except Mexico (the programme was based on a flexible credit line), received assistance on a stand-by basis.

As for the World Bank, this institution has played a crucial role in responding to immediate challenges and overcoming long-term consequences. In response to the crisis, the World Bank rapidly mobilised resources and took various measures to mitigate its effects. One of the priority measures taken by the World Bank was to provide financial assistance to the affected countries. Through its lending institutions, such as the International Bank for Reconstruction and Development (IBRD) the International Development Association (IDA), and the International Finance Corporation (IFC), the World Bank has offered emergency financing to help countries stabilise their economies and boost growth. The three-year strategy, released in March 2009, set out two main areas of the World Bank's operational response. Under the first pillar, financial support was scaled up to help countries mitigate the impact of the crisis, with the IBRD providing USD 100 billion, IDA USD 42 billion, and IFC USD 36 billion (along with mobilising about USD 24 billion). In the second block, a three-part response model was developed to protect the most vulnerable from the effects of the financial and economic crisis (World Bank 2011).

Credit financing has been divided into several main sectors of focus. In particular, in economy (economic policy), the programmes were aimed at reforming public policy to improve financial sustainability, efficiency of public funds and external competitiveness in various countries, including Brazil, El Salvador, Guatemala, Indonesia, Iraq, Armenia, Ghana, Jordan, Macedonia, Poland, Romania, Serbia, Turkey, Turkey, Croatia, and others. Support to promote financial resilience has been aimed at developing or reforming the financial sector in Hungary, India, Latvia, Mexico, and Turkey (World Bank 2011). These measures included both instruments to support the development of governance policies and reforms and credit lines. During this crisis (2008-2009), the World Bank Group disbursed the largest amount of funds compared to any other international financial institution, even more than the IMF (Figure 4).

Figure 4. The total amount of financial resources provided through various credit programmes and mechanisms in 2009-2010 by international financial institutions, billion USD



Source: compiled by the authors based on World Bank (2011).

The figure for other international financial institutions includes financing packages from the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the African Development Bank (AfDB). By determining the consequences for the global economy and financial system that will be caused by the COVID-19 pandemic, international financial institutions were ready to respond quickly, approving the necessary programmes to support global financial stability. In general, based on the experience already gained, the activities were focused on emergency financing, debt restructuring, bilateral debt relief, liquidity enhancement, and capacity building. In particular, in 2020, the IMF provided financial assistance to Uzbekistan under the Rapid Financing Instrument (RFI) emergency support programme. In April 2020, the IMF approved a 375 million USD loan to help the country deal with the economic consequences of the pandemic. These funds were used to support budget expenditures, including healthcare and social protection, as well as to support the country's balance of payments. In April 2020, the IMF approved an expansion and increase in the support programme under the Extended Fund Facility (EFF) and the Stabilisation Bailout (SBA) for Georgia, providing an additional 200 million USD. This decision increased the total amount of support to about 447 million USD (The IMF's Response to COVID-19 2021). The funds were used to support budget expenditures, including healthcare and social protection, and to strengthen the country's balance of payments.

In 2020, the World Bank allocated significant funds to Georgia under various projects and programmes aimed at combating the effects of the pandemic and supporting the economy. This included financing programmes to strengthen healthcare, social protection, education, infrastructure projects and support for the private sector (World Bank 2020). In total, leading international financial institutions allocated more than 210 billion USD in 2020-2021 to support the financial and economic stability of the world (Table 4).

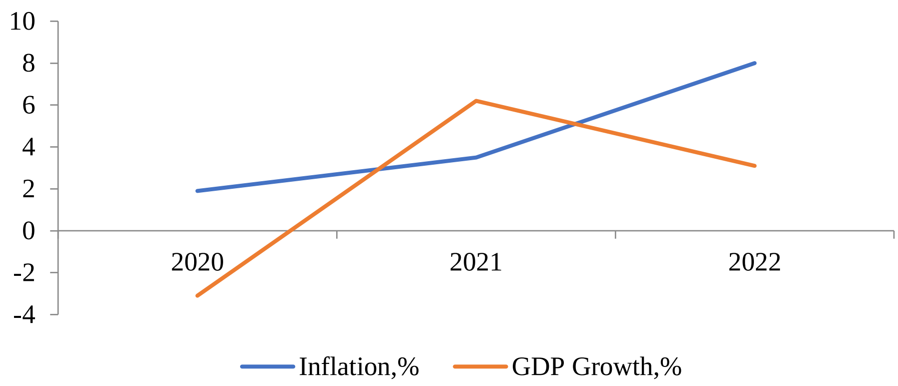
Table 4. International financial institutions' response to the economic downturn and financial instability caused by COVID-19

IFI	Funding programmes and other activities in 2020-2021
IMF	Emergency financial assistance in the amount of more than 110 billion USD, which was allocated to 86 countries. The IMF has also increased lending limits and simplified the conditions for accessing funds for the countries most affected by the pandemic.
World Bank Group	Large-scale, over 157 billion USD. The US pandemic response programme. In particular, 45.6 billion USD for middle-income countries, and 53.3 billion USD was allocated on grants or very favourable terms for the poorest countries threatened by the debt crisis to repay their debt burden.
ADB	More than 20 billion USD has been provided to help countries in the region to combat the pandemic and its economic consequences.
EBRD	Around 25 billion EUR has been allocated to support businesses in transition economies.

Source: compiled by the authors based on World Bank (2020), The IMF's Response to COVID-19 (2021), Asian Development Bank (2020).

Such large-scale support from the global financial community had a positive effect on the global economy, which gradually began to recover. However, global inflation showed an upward trend (up 6.1% points), which is not a positive development (Figure 5).

Figure 5. Global GDP growth and global inflation in 2020-2022



Source: compiled by the authors based on World Bank (2024c; 2024e).

The rise in inflation and the slowdown in economic growth in 2022 were driven by the ongoing war in Ukraine. As a result, there have been dramatic global shifts in the fuel and energy sector, disrupting supply chains, and increasing uncertainty and risks. This could potentially have serious implications for the global economic and financial sector. The efforts of the International Financial Institutions to support financial and economic stability in the region will be crucial for ensuring global financial stability.

Based on the results of the study, three main areas of IFI financing can be identified. First, it is emergency financial assistance. For example, Mexico was approved for a programme under the Flexible Credit Line, a new lending instrument created as part of the IMF's lending reforms in response to the 2008-2009 global financial crisis. Unlike traditional IMF lending programmes, this form of cooperation did not require countries to meet strict economic conditions before accessing funds. The countries could use the funds at their discretion, without the need for detailed approval of each tranche by the IMF. Funds were disbursed quickly, which was especially important during the crisis. The same approach was applied during the COVID-19 pandemic when the IMF provided more than 100 billion USD to 86 countries to help them resolve balance of payments problems and undermine national currency stability. Another area of financing is the Stand-by Arrangement, which assists in the form of foreign currency tranches but contains requirements to reduce the budget deficit, tighten monetary policy, implement structural reforms and other measures aimed at improving economic stability and sustainable growth. This scheme was used to finance Thailand and Indonesia during the Asian crisis of 1997-1998, as well as Ukraine, Hungary, Serbia, Latvia, and Romania during the global financial crisis of 2008-2009. The third area of financing is economic development loans, which include funds for infrastructure, energy, education, entrepreneurship, and energy efficiency, and are long-term in nature and provide a gradual effect in promoting financial stability by strengthening national economies. In this area, the most prominent role is played by the World Bank Group, the Asian Development Bank, and the European Bank for Reconstruction and Development, which, according to the study, have allocated more than 200 billion USD to combat the effects of the COVID-19 crisis USD of concessional loan financing.

4. Discussions

As the research results show, financial stability and economic crises are interrelated. Financial stability is determined by the ability of the financial system to withstand "stress" situations and prevent serious disruptions in its functioning. When the financial system is stable, it can effectively adapt to changes, ensuring stability and reliability for all its participants. However, even in the presence of a system that is generally stable, there are risks of financial crises, as confirmed by the studies by Kim *et al.* (2020) and Kosova *et al.* (2022), which examine financial crises, financial stability and risk management. Acharya and Richardson (2009) conclude that crises can occur for various reasons, such as economic recessions, political instability, and extraordinary events, such as pandemics, the authors of the study. The results of this study confirm this, but it should be noted that financial crises are not always the result of insufficient financial stability. Sometimes, crises can arise due to miscalculations, regulatory shortcomings (legislation), management negligence or even artificial manipulation (Huseynov *et al.* 2023; Ismayil-Zada 2022). In contrast, the present study emphasizes that even well-diversified systems are not immune to the spillover effects of global crises, as seen in the 2008 financial collapse. Therefore, while both studies agree on the importance of stability, the current research highlights the broader global interconnectedness that challenges isolated diversification strategies.

Sethi *et al.* (2020) analysing economic growth and financial development in the context of globalisation processes, argue that globalisation makes the world financial system very interdependent. Financial markets, banking, and investment have become highly integrated due to the growth of international trade and capital flows (Butenko *et al.* 2023; Lila *et al.* 2023). This means that the open financial markets of one country can affect the financial stability of other countries. The results of this study confirm this and give reason to believe that financial instability or economic crisis in one country can shake the financial stability of the entire world, as was the case during the 1997-1998 East Asian crisis, which began with financial troubles in Thailand, or the global financial crisis of 2008-2009, which began with the collapse of the US real estate market and related banks. Therefore, to ensure global financial stability, there is a need for international centres, organisations and institutions that could coordinate efforts in a timely, adequate and effective manner and take an active part in overcoming the consequences of crises and preventing their occurrence (Abdullayev *et al.* 2024).

As the results of the study show and are confirmed in the study of the IMF's supervisory policy by Ramos *et al.* (2021), the main international financial institution that aims to help the stability of currencies and financial systems in the world by promoting international cooperation to maintain financial stability and promote economic growth is the IMF. However, the findings of the study also demonstrate the important role of the World Bank Group in countering global financial instability. At the regional level, the Asian Development Bank, the European Bank for Reconstruction and Development, and other institutions are involved in strengthening financial stability. Overall, the data suggest that international financial institutions use various mechanisms to promote financial stability in the global financial system. This includes international cooperation and coordination. This mechanism involves active cooperation between states and international organisations in developing and implementing measures to prevent and manage financial crises. For example, during the global crisis of 2008-2009, the World Bank played an important role in coordinating international efforts to overcome the crisis. He worked closely with other international financial institutions such as the IMF, EBRD, and ADB to develop a comprehensive response and ensure a coherent global strategy. This coordination was crucial to restoring confidence in financial markets and preventing the crisis from escalating into a protracted recession. The present study corroborates these findings but expands the scope to show how this supervision also plays a critical role in crisis response coordination, especially during the global financial crisis of 2008-2009. Thus, the current research not only confirms Ramos *et al.*'s insights but also underscores the IMF's broader strategic role in global financial stability.

The results show that international financial institutions can work with a large amount of data, which also determines their use of such a mechanism as analytical support and advice to governments on the development and implementation of necessary policies to improve financial stability. This, in turn, contributes to the implementation of economic and structural reforms of national economies and financial systems to improve their competitiveness and resilience. Another mechanism of influence on the part of IFI is the role of a guarantor, which signals to investors that national economies are supported and insured in solving their problems. This can increase investor confidence and reduce the risks associated with investing in the country, which contributes to a rapid recovery of credit and financial markets. However, as the study results show, the most significant and effective mechanism to promote the financial stability of the global financial system, at least in the initial stages of combating financial difficulties and volatility, is to provide financial assistance (on a variety of bailouts) to countries facing financial difficulties to stabilise their financial markets and prevent their default, which could lead to an even more serious economic downturn and financial fluctuations on a global scale. This conclusion is also supported by a study by Balima and Sy (2021), who analyse IMF support programmes and sovereign debt defaults. While the current research agrees with their findings, it further demonstrates that the effectiveness of these programs depends on the recipient country's ability to implement reforms without causing social unrest.

Some studies have criticised international financial institutions for applying the same methods, which include cutting budget expenditures, and social spending, deregulating the economy and privatising state assets without considering national specifics, often with negative social consequences such as increased poverty and unemployment. Chletsos and Sintos (2021) examined the potential link between the intervention of international financial institutions, in particular the IMF, and the growth of the shadow economy. This study demonstrates that IMF structural adjustment requirements, such as public sector spending cuts or privatisation measures, are more strongly associated with an increase in the size of the shadow economy than quantitative conditions based on indicators such as inflation or budget deficits. Stricter regulations and tighter fiscal policies associated with IMF assistance programmes may encourage businesses and individuals to operate in the shadows, while reduced public funding for social spending may force some people into informal employment. However, the results of the study suggest that measures taken by international financial organisations to stabilise national economies and financial sectors had a positive impact on both the countries that cooperated with them and global financial and economic stability. The current study confirms that austerity policies can have negative social consequences but contrasts with the results of the scholars by showing that in some cases, these measures successfully stabilized economies, as evidenced in East Asian countries post-1997 crisis. This suggests that the success of IMF interventions varies depending on the specific economic context and the degree of compliance with reforms. East Asian countries (Thailand, Korea, and Indonesia) quickly recovered from the consequences of the 1997-1998 crisis, stabilising their currencies, curbing inflation, and demonstrating significant GDP growth. The same conclusions are reached by Kutan *et al.* (2012), noting that the policies of the IMF, the World Bank and the Asian Development Bank did not turn the financial crisis into a protracted and large-scale crisis of the real sector of the world economy. The present research supports their conclusions by providing additional evidence that IMF and World Bank policies not only stabilized financial markets but also contributed to long-term GDP growth in countries like South Korea and Thailand.

Thus, the assistance of international financial institutions in ensuring global financial stability, primarily through financial programmes, is an important tool in the fight against financial volatility, and the effectiveness of this assistance may depend on several factors, including the correct implementation of financing conditions and reforms by recipient countries, as well as external factors such as the global geopolitical and economic situation. In general, the effectiveness of IFI is determined by the quality of management and coordination between different organisations and government authorities, as well as the ability to optimise and adapt the requirements to national realities. Many countries have adopted a combined approach, using both IFI assistance and independent measures and reforms to effectively overcome the financial crisis and ensure sustainable economic development in the future. Given the close interstate financial and economic integration in the modern world, there is a need to constantly improve the activities of international financial institutions so that they can meet the current challenges facing global financial stability.

Conclusions

The stability of the financial systems of individual countries is critical to the smooth functioning of the global economy, as resilient financial systems facilitate the free flow of capital, investment and trade, which are the engines of economic growth; and reduce the risk of financial crises, as resilient financial systems are better able to withstand shocks and recover from crises more quickly; and improve human welfare, as resilient financial systems contribute to job creation, income growth and overall living standards.

The role of international financial institutions in promoting global financial stability is manifested through technical assistance and advice to governments on the development and implementation of economic and financial policies aimed at overcoming the crisis and restoring stability, promoting international cooperation, as IFI serve as a platform for discussing economic problems and developing coordinated solutions at the global level, and facilitating structural reforms that can increase resilience to crises in the long term. However, the main way in which international financial institutions influence financial stability is by providing loans and other financial assistance to countries in difficult financial and economic situations. This prevents defaults and ensures control over financial risks. For example, the IMF often acts as a "last resort" by providing loans to countries facing financial crises, requiring in return reforms aimed at restoring and strengthening financial stability. The World Bank Group focuses on a longer-term perspective, financing infrastructure and energy efficiency projects and providing financial and investment support to small and medium-sized businesses.

Examples of successful activities and weaknesses of international organisations include their intervention during the Asian crisis of 1997-1998 when they provided financial assistance and developed recommendations for reforming the countries most affected by the crisis, which contributed to their rapid recovery. Furthermore, during the global financial crisis of 2008-2009 and the COVID-19 crisis, IFIs played a key role in coordinating international efforts by providing loans and developing programmes to reform the economies and financial systems of many countries. Despite the intensification of globalisation processes over the past decades, international financial institutions have failed to prevent financial crises, and have taken measures after they have occurred, so further research should be directed at developing mechanisms for the early detection of crises at the global level with the development of methods, techniques and tools aimed at levelling them by international financial institutions.

Credit Authorship Contribution Statement

Imaduddin Murdifin: Investigation, Validation, Writing – original draft.
Hajering Hajering: Conceptualization, Methodology, Supervision, Writing – original draft.
Barno Razakova: Investigation, Validation, Writing – review and editing.
Avtandil Silagadze: Conceptualization, Methodology, Project administration.
Tamar Atanelishvili: Methodology, Visualization, Writing – review and editing.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI and AI-Assisted Technologies

The authors declare that they have not used generative AI and AI-assisted technologies during the preparation of this work.

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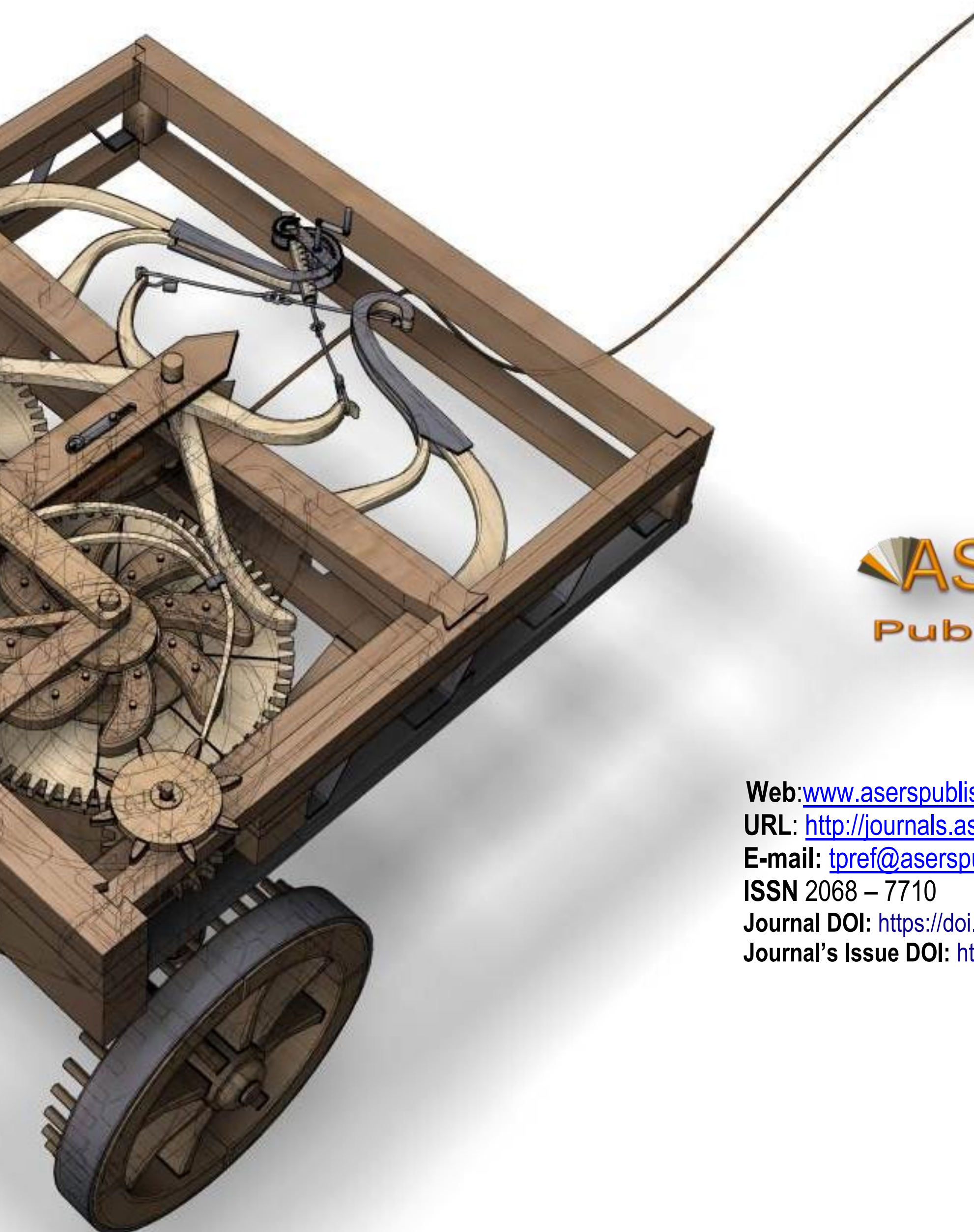

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