

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

A Global Crisis like No Other

The International Monetary Fund (IMF) usually holds its Spring Meeting in Washington DC in April. This year, due to the emergency conditions arising from the COVID-19 pandemic, the IMF meeting was conducted in a virtual format. The global crisis resulting from the pandemic was the major issue discussed at the meeting at which the IMF provided a powerful response to the global crisis, announcing a comprehensive package of actions that were endorsed during the meeting. Following the meeting, IMF managing Director Kristalina Georgieva provided a summary of the IMF response with a statement that *“A Global Crisis like No Other Needs a Global Response like No Other”*. In her opening comments she described the global crisis in the following terms: *“more complex with interlinked shocks to our health and our economies that have brought our way of life to an almost complete stop; more uncertain as we are learning only gradually how to treat the novel virus, make containment most effective, and restart our economies; truly global as pandemics do not respect borders, neither do the economic shocks they cause”*. Ms Georgieva continued with the observation that the outlook is dire as the IMF expects global economic activity to decline on a scale not seen since the Great Depression. This year 170 countries will see income per capita go down whereas only months ago the IMF was projecting 160 economies to register positive per capita income growth.

Governments all over the world have taken unprecedented action to respond to the pandemic so as to save lives and protect societies and economies. Fiscal measures so far have amounted to about \$8 trillion and central banks have undertaken massive liquidity injections. For its part, the IMF has a trillion dollar lending capacity available for its 189 member countries, representing four times more

than at the outset of the Global Financial Crisis. In recognition of the global and fast-moving characteristics of the current crisis, the IMF believes that early action is far more valuable and impactful, and accordingly has accelerated its capacity to provide financial resources quickly, especially for low-income countries. The IMF has doubled its emergency rapid-disbursing capacity to meet expected demand of about \$100 billion. It has also reformed its Catastrophic Containment and Relief Trust to help 29 of the poorest and most vulnerable countries. The IMF is also seeking new resources to support its Poverty and Growth Trust and is advocating suspension of official bilateral debt repayments for the poorest countries in 2020 and has established a new short-term liquidity line that can help countries strengthen economic stability and confidence. The IMF has expressed its particular concern about emerging markets and developing countries. They have experienced the sharpest portfolio flow reversal on record of about \$100 billion. Those dependent on commodities have been further shocked by plummeting export prices. Tourism-dependent countries are experiencing a collapse of revenues, as are those relying on remittances for income support. For emerging economies, the IMF can engage through regular lending instruments, including those of a precautionary nature. This may require considerable resources if further market pressures arise. For the poorest countries, much more concessional financing is required; many economies will require significant fiscal outlays to tackle the health crisis and minimize bankruptcies and job losses while facing mounting external financing needs.

Looking ahead beyond the current conditions, the IMF intends to develop strategic plans to prevent a protracted global recession and to prepare for

ultimate recovery. To help lay the foundations for a strong recovery, IMF advice on appropriate policy will need to adapt to evolving realities, with a clear understanding of the specific challenges, risks, and tradeoffs facing every country as they gradually restart their economies. Key issues include how long to maintain extraordinary stimulus and unconventional policy measures, and how to unwind them; dealing with high unemployment and low interest rates; preserving financial stability; and facilitating sectoral adjustments and private sector debt workouts. Also to be addressed are various long-standing challenges that require a collective response, such as reigniting trade as an engine for growth, sharing the benefits of fintech and digital transformation, and combating climate change. Ms Georgieva concluded her remarks stating that in the new post-COVID-19 world, we simply cannot take social cohesion for granted; we must support countries' efforts in calibrating their social policies to reduce inequality, protect vulnerable people, and promote access to opportunities for all. This is a time that tests our humanity; it must be met with solidarity. There is much uncertainty about the shape of our future, but we can also embrace this crisis as an opportunity to craft a different and better future together.

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