

The IMF's Emergency Response to the COVID-19 Crisis

WTO Aid-for-Trade Webinar
27 May 2020

Brad McDonald
International Monetary Fund



How the IMF Works

Board of Governors



IMFC



Executive Board



Management

Staff



Role of the IMF

The IMF is an organization of 189 countries. One overriding Purpose (Article I, IMF Articles of Agreement) is “to facilitate the expansion and balanced growth of international trade and to contribute thereby to ... high levels of employment and incomes.” It works to foster financial stability and inclusive growth through three areas of operations:

SURVEILLANCE

The IMF provides **policy advice** to its member countries on how to foster economic stability, prevent financial crises, and raise living standards.

LENDING

The IMF **lends** and works with member countries with financial difficulties to help them address financial problems.

CAPACITY DEVELOPMENT

The IMF **shares its knowledge** with member countries and works with them to build effective policies and institutions through capacity development.



Economic Impact of the Covid-19 Crisis

- ❖ COVID Crisis has upset the social and economic order with historic speed and scale
- ❖ Strength & duration of impact remain very uncertain—depend on:
 - ❖ Epidemiology of the virus
 - ❖ Effectiveness of containment measures
 - ❖ Development of therapeutics / vaccines
- ❖ Policymakers are providing unprecedented support to households, firms, and financial markets
- ❖ But much uncertainty remains about the economic landscape when we emerge from the initial lockdown

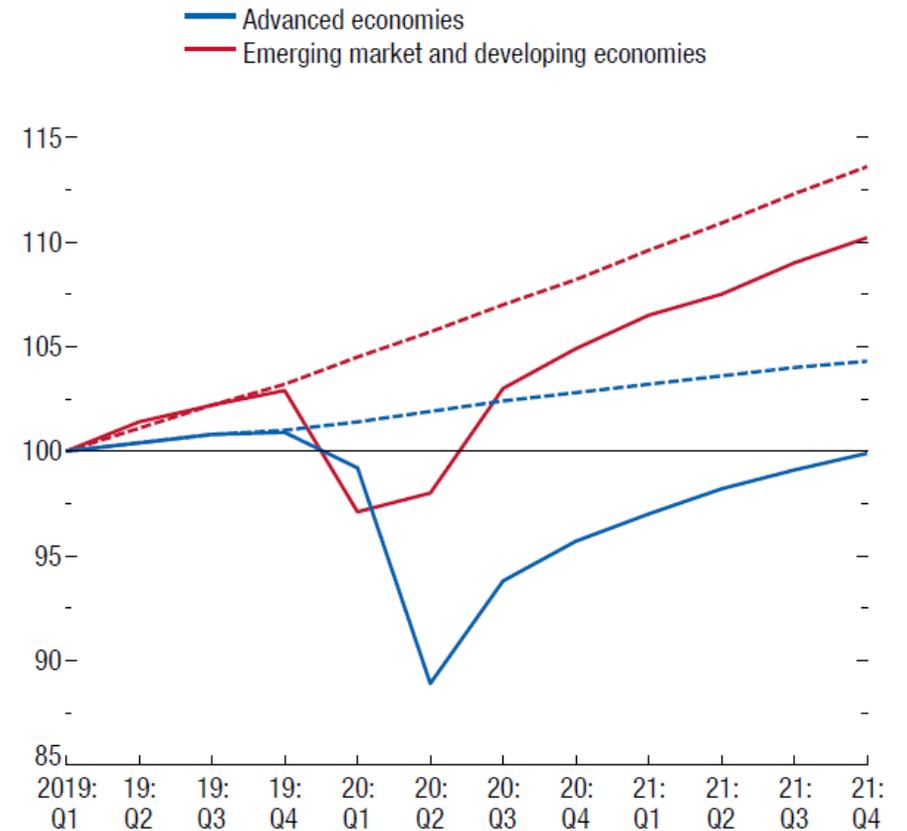


IMF World Economic Outlook (WEO), April

- ❖ WEO anticipates worst economic impact since Great Depression, with 2020 global growth sharply negative
 - ❖ Global growth, 2020: -3 percent
- ❖ For 2021 we project a partial rebound, with growth of nearly + 6 percent. It assumes:
 - ❖ Pandemic fades in late 2020
 - ❖ Policy actions prevent widespread bankruptcy, prolonged job loss, system-wide financial strains.
- ❖ For 2020-21, cumulative loss to global GDP of \$9 trillion—greater than economies of Germany and Japan combined.
- ❖ Estimates will be regularly revisited / updated

Figure 1.6. Quarterly World GDP

(2019:Q1 = 100; dashed lines indicate estimates from January 2020 World Economic Outlook Update)



Source: IMF staff estimates.

Stark downgrade from January projection

Table 1.1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

	2019	Projections		Difference from January 2020 WEO Update ¹	
		2020	2021	2020	2021
World Output	2.9	-3.0	5.8	-6.3	2.4
Advanced Economies	1.7	-6.1	4.5	-7.7	2.9
United States	2.3	-5.9	4.7	-7.9	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8
France	1.3	-7.2	4.5	-8.5	3.2
Italy	0.3	-9.1	4.8	-9.6	4.1
Spain	2.0	-8.0	4.3	-9.6	2.7
Japan	0.7	-5.2	3.0	-5.9	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5
Canada	1.6	-6.2	4.2	-8.0	2.4
Other Advanced Economies ²	1.7	-4.6	4.5	-6.5	2.1
Emerging Market and Developing Economies	3.7	-1.0	6.6	-5.4	2.0
Emerging and Developing Asia	5.5	1.0	8.5	-4.8	2.6
China	6.1	1.2	9.2	-4.8	3.4
India ³	4.2	1.9	7.4	-3.9	0.9
ASEAN-5 ⁴	4.8	-0.6	7.8	-5.4	2.7
Emerging and Developing Europe	2.1	-5.2	4.2	-7.8	1.7
Russia	1.3	-5.5	3.5	-7.4	1.5
Latin America and the Caribbean	0.1	-5.2	3.4	-6.8	1.1
Brazil	1.1	-5.3	2.9	-7.5	0.6
Mexico	-0.1	-6.6	3.0	-7.6	1.4
Middle East and Central Asia	1.2	-2.8	4.0	-5.6	0.8
Saudi Arabia	0.3	-2.3	2.9	-4.2	0.7
Sub-Saharan Africa	3.1	-1.6	4.1	-5.1	0.6
Nigeria	2.2	-3.4	2.4	-5.9	-0.1
South Africa	0.2	-5.8	4.0	-6.6	3.0
<i>Memorandum</i>					
European Union ⁵	1.7	-7.1	4.8	-8.7	3.1
Low-Income Developing Countries	5.1	0.4	5.6	-4.7	0.5
Middle East and North Africa	0.3	-3.3	4.2	-5.9	1.2
World Growth Based on Market Exchange Rates	2.4	-4.2	5.4	-6.9	2.6

- ❖ For 2020, some 8 percentage points in AEs, 5 percentage points in LIDCs
- ❖ Global trade volumes hit hard

World Trade Volume (goods and services)	0.9	-11.0	8.4	-13.9	4.7
Imports					
Advanced Economies	1.5	-11.5	7.5	-13.8	4.3
Emerging Market and Developing Economies	-0.8	-8.2	9.1	-12.5	4.0
Exports					
Advanced Economies	1.2	-12.8	7.4	-14.9	4.4
Emerging Market and Developing Economies	0.8	-9.6	11.0	-13.7	6.8
Commodity Prices (US dollars)					
Oil ⁶	-10.2	-42.0	6.3	-37.7	11.0
Nonfuel (average based on world commodity import weights)	0.8	-1.1	-0.6	-2.8	-1.2
Consumer Prices					
Advanced Economies	1.4	0.5	1.5	-1.2	-0.4
Emerging Market and Developing Economies ⁷	5.0	4.6	4.5	0.0	0.0
London Interbank Offered Rate (percent)					
On US Dollar Deposits (six month)	2.3	0.7	0.6	-1.2	-1.3
On Euro Deposits (three month)	-0.4	-0.4	-0.4	0.0	0.0
On Japanese Yen Deposits (six month)	0.0	-0.1	-0.1	0.0	-0.1

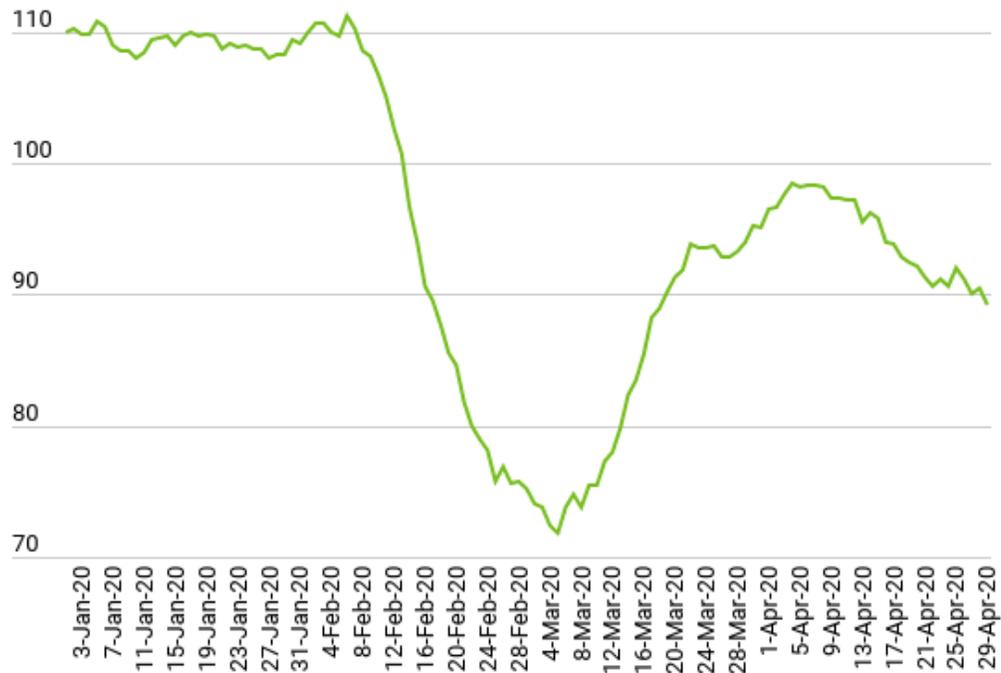
Source: IMF staff.

Real-time trade effects

Daily estimates of trade volumes can help reveal country-level patterns that may not always show up as crisply in monthly data...

China's Export Volume

(estimated exports relative to 2017-19 average)



Sources: Cerdeiro, Komaromi, Liu and Saeed (2020); AIS data from MarineTraffic.

Note: 30-day moving averages, base years adjusted for Lunar New Year.

- The impact on trade has been especially abrupt
- This chart shows IMF estimates of China's daily goods exports from January – April (sea transport only)
- Estimates are developed from millions of hourly signals from cargo ships
- They show a very abrupt decline in February; a strong recovery in March
- Exports fell again in April, as demand from other countries dropped off.
- Many other countries have experienced similarly abrupt impacts

Source: "Tracking Trade During the COVID-19 Pandemic," Diego Cerdeiro and others, www.imf.org



IMF Response: Emergency Financing Assistance to Members (1)

The IMF seeks to respond with unprecedented speed and magnitude, to help countries protect the lives and livelihoods of their people—especially the most vulnerable.

Over 100 members have requested emergency financing; we expect total demand for emergency financing of about \$100 billion.

Emergency financing does not need a full-fledged economic program. Requirements:

- Debt is sustainable (or on track to become sustainable)
- Urgent balance of payments needs
- Country is pursuing appropriate policies

Financing comes as a one-off disbursement (no forward-looking conditionality)



IMF Response: Emergency Financing Assistance to Members (2)

- ❖ New streamlined procedures make financing available within a few weeks in many cases; where a country's debt sustainability is a major issue, this will take longer.
- ❖ Staff conduct virtual missions to assess qualification requirements and prepare documentation for the Executive Board.
- ❖ The IMF Executive Board has moved in record time to approve emergency financing to 59 countries, totaling about \$22 billion (as of 20 May).
- ❖ Other requests are at various stages of consideration.
- ❖ Because of the magnitude of the impact, we recently doubled the maximum amount of emergency financing available to any single country.



IMF Response: Debt Relief for Members (1)

There are two significant initiatives regarding debt relief.

1. **Grants for debt relief under the Catastrophe Containment and Relief Trust (CCRT)**
 - ❖ CCRT allows IMF to provide grants for debt relief (for IMF debt service) to poorest, most vulnerable countries hit by natural or public health disasters
 - ❖ Eligibility: Countries eligible for IMF concessional borrowing (“low-income countries”) and having per capita income below \$1175 (small states: \$2350)
 - ❖ CCRT can currently provide aggregate \$500 million grant-based relief
 - ❖ On April 13, IMF Executive Board approved immediate debt service relief for 25 countries* for six months

We have launched a fund-raising effort to allow the CCRT to provide debt service relief for 2 years. This will require a commitment of \$1.4 billion.

*Afghanistan, Benin, Burkina Faso, Central African Republic, Chad, Comoros, Congo, D.R., The Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, Solomon Islands, Tajikistan, Togo, and Yemen.



IMF Response: Debt Relief for Members (2)

2. Recognizing the heavy burden the crisis places on low-income countries:

- ❖ The IMF Managing Director and WB President called on March 25 for official bilateral creditors to suspend debt service payments from poorest countries.
- ❖ On April 15, G20 agreed “Debt Service Suspension Initiative” (DSSI). DSSI means:
 - bilateral official creditors will suspend debt service from 71 poorest countries (IDA-eligible + Angola) that request suspension.
 - Fully tapped, this would amount to \$11 billion in 2020 (o/w \$6 bn in S-S-A).
- ❖ The Institute for International Finance (IIF) has also responded, by urging private sector creditors to forego debt payments until end-2020.
 - If private creditors participate on the same terms, this would amount to \$7 billion in relief in 2020.



Thank you

