

IMF Publication

Policy Steps to Address the Corona Crisis

INTERNATIONAL MONETARY FUND

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Monitoring, containing and mitigating the effects of the corona virus are top priorities. Timely and decisive actions by health authorities, central banks, fiscal, regulatory and supervisory authorities can help contain the virus outbreak and offset the economic impact of the pandemic. Central banks must support demand and confidence by preventing a tightening of financial conditions, lowering borrowing costs for households and firms, and ensuring market liquidity. Fiscal policy must step up to provide sizable support to the most affected people and firms, including in hard-to-reach informal sectors. Regulatory and supervisory responses must aim to preserve financial stability and banking system soundness while sustaining economic activity.

Significant steps have been taken in recent days, going in the right direction, but more needs to be done. As the virus spreads across the globe, decisive and coordinated action is key to providing stability to the global economy and financial markets, boosting confidence, and preventing deep and prolonged economic effects. We must also help poorer and the most vulnerable countries by providing equipment and financing to prevent and treat infections. The IMF stands ready to support its membership, including through financial support for the countries hardest hit.

Monitoring and containment measures are essential to slow the spread of the virus and reduce the peak load on health systems.

- *Early monitoring and swift and comprehensive containment measures will slow the spread of the virus.* The WHO is providing guidance on health measures. Ensuring sufficient paid sick leave will help to curb contagion. In countries with less reliable social safety nets, health interventions must be targeted to reach informal sectors and those living in extreme poverty. Systematic testing is necessary to document progress and inform when it is safe to resume activity in previously affected regions.
- *Ramp up public health expenditure urgently.* Overwhelmed systems can amplify the initial shock through social anxiety, reduced detection and treatment, and heightened need for quarantine. Key steps include supporting medical tele-consultations and extra-ordinary recruitment in the health sector, complemented by coordinated industrial response in medical supplies production and steps to reduce negative cross-border spillovers from excessive hoarding.
- *Inform populations of the seriousness of the crisis and change individual behaviors.* A high-level group should be established to coordinate responses. Timely and regular communication of information from credible sources is essential, including daily updates on severity. National directives and transparent policy advice will help guide the efforts and resource allocation of firms and the public sector to monitor, plan and respond to the pandemic.
- *Cooperate on measures to help the vulnerable within, and across countries.* It remains important to ensure that crucial medical supplies are not restricted from reaching the people and countries most in need, as it would raise infection rates further and prolong the pandemic.

Central banks should support demand and confidence by easing financial conditions, ensuring the flow of credit to the real economy, and fostering liquidity in domestic and international financial markets.

- *Central banks should provide liquidity to support market functioning and ease stresses in key funding markets, through open market operations, expanded term lending, and other measures such as outright purchases and repo facilities.*
- *Monetary easing will support demand and confidence while reducing borrowing costs for households and firms. In addition to rate cuts (where there is policy space), stimulus can be provided through forward guidance about the expected path of monetary policy, and expansion of asset purchases (including risky assets).*
- *Temporary targeted measures will support sectors that have been hit hardest. To complement generalized policy measures, more targeted support for certain asset classes should be considered.*
- *Coordinated action by G7 central banks can provide stability to the global economy and financial markets. This includes coordinated monetary easing and swap lines to lessen global financial market stresses and liquidity pressures, including swap lines to emerging market economies.*
- *Monetary policy in emerging and developing economies (EMDE) will need to balance cushioning growth with tackling external pressures, including commodity price shocks and capital flow reversals. Monetary easing by the G7 will offer room for EMDE central banks to do the same to support domestic demand. Exchange rate flexibility can offset external shocks, but foreign exchange intervention may be necessary if market conditions become disorderly. In crisis or near-crisis situations, capital flow measures may need to be deployed for a temporary period.*

Fiscal policy should urgently provide sizable support for affected people and firms during the pandemic. Depending on the evolving nature of the pandemic, additional fiscal stimulus may be necessary to prevent long-lasting economic damage.

- *Governments should provide sizable support for affected people and firms. Wage subsidies for businesses affected by shutdowns can help prevent cascading bankruptcies and massive layoffs that will have lasting effects for future recovery and negative impact on aggregate demand. Cash transfers to low-income households can support consumption and preserve minimum living standards.*
- *Broad-based fiscal stimulus will help support aggregate demand. Options—including through boosting investment or economy-wide tax cuts—will depend on the evolving nature of the shock and the availability of fiscal space. Although the impact of broad stimulus may be small until the COVID-19 outbreak fades because of large supply disruptions, accelerating implementation of investment or other discretionary measures can prevent stimulus arriving too late.*

- *The fiscal response by G20 countries has been timely but so far remains lower than during the global financial crisis.*¹ Given the temporary nature of health epidemics, the current crisis is likely to be more short-lived. However, as the virus spreads across the globe, more needs to be done in 2020, and the case for a *coordinated and synchronized global fiscal stimulus* to enhance confidence is becoming stronger.
- *Low-income countries (LICs) with limited domestic policy options depend critically on global growth.* Many LICs are buffeted by multiple shocks on external demand, terms-of-trade and financing conditions. Their capacity to smooth growth is constrained amid high debt and limited monetary or exchange rate flexibility. Managing a softer landing will require growth-friendly spending adjustments and financial support. Timely concessional financing from major economies and international financial institutions will soften this blow.

The regulatory and supervisory response should aim to maintain the balance between preserving financial stability, maintaining banking system soundness and sustaining economic activity.

- *The economic impact of the coronavirus will affect borrowers' capacity to service loans, and depress banks' earnings, which could eventually impair bank soundness and stability.* Banks should be encouraged to use flexibility in existing regulations and undertake prudent renegotiation of loan terms for stressed borrowers. Loan classification and provisioning rules should not be eased, and it is critical to measure NPLs and potential losses as accurately as possible.
- *Transparent risk disclosure and clear communication of supervisory expectations on dealing with the implications of the outbreak will be important for market discipline to work effectively.* Supervisors should heighten monitoring of financial soundness, enhance frequency of dialogue with regulated entities, prioritize discussions on business continuity planning and operational resilience.
- *Liquidity buffers should be used if needed and enhanced supervisory reporting could be introduced to monitor liquidity strains.* Banks should draw upon existing buffers to absorb costs of restructuring, first drawing down their capital conservation buffer (CCB) to absorb losses; supervisors should ensure that dividend distributions are revised, as needed. When already activated, countercyclical capital buffers (CCyB) may be also released.
- *The authorities may need to step in with additional support measures* – in past crises, subsidies and tax relief aimed at smaller borrowers as well as credit guarantees and asset purchases programs to support banks have been the main vehicles, though capital injections and broad deposit guarantees have also been employed to restore confidence and stem systemic turbulence.

¹ Compared to the 2008 global financial crisis, the fiscal stimulus has so far been driven mostly by the response of Asian economies that were affected first by the pandemic.

Global coordination and cooperation are crucial for an orderly recovery, and policies must be designed to ensure that the poor don't get left farther behind.

- *Determined and coordinated actions by those with greater policy strength will serve as a public good for all others.* Proactive policies by the G7 and other major economies to contain infection rates, support an orderly flow of medical supplies, and provide the much-needed momentum for global activity will help the many countries that do not have adequate domestic means to handle the multiple shocks.
- *Policy responses need to be tailored to existing administrative systems and capacity.* Where administrative systems are weak and policy measures cannot be effectively targeted, broader measures may well be needed for an efficient response. Attention needs to be given to delivering assistance to hard-to-reach regions and communities.
- *The IMF stands ready to mobilize its \$1 trillion lending capacity to help its membership fight the Coronavirus (Covid-19) pandemic, and its widespread human, economic and financial costs (Annex).* Many members are now at risk and need support because of weak health systems, limited policy space, and exposure to the large terms of trade shocks and financial spillovers seen in recent days. The IMF is also in close contact and coordinating country support with the World Bank and other international financial institutions.

Annex: The Role of the IMF

The Fund has already received financing requests and inquiries from over 20 countries. More requests are expected, and the Fund is prepared to utilize the full range of tools at its disposal:

- *As a first line of defense, the Fund can deploy its flexible emergency response toolkit—the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF)—to help countries with urgent BOP needs.* The RFI is available to all member countries, while the concessional RCF provides zero interest loans to PRGT-eligible members, both without the need for a full-fledged program. These instruments could provide support in the order of \$50 billion to emerging and developing countries.
- *Emergency financing under the RCF and RFI can pave the way for new Fund-supported programs with larger loans, drawing on the IMF's \$1 trillion lending capacity.*
- *The Fund already has 40 ongoing arrangements—both disbursing and precautionary—with combined commitments of about \$200 billion.* In many cases, these arrangements can provide another vehicle for the rapid disbursement of crisis financing.
- *The Fund's Catastrophe Containment and Relief Trust (CCRT) can provide the poorest and most affected countries with grants to pay off debt service to the Fund, freeing up vital resources for containment and mitigation of the pandemic.* Following the United Kingdom's recent pledge of up to \$195 million, the CCRT has about \$400 million available to provide debt relief. We are working closely with other donors to further boost available resources to as much as \$1 billion.
- *The IMF will continue to play its role at the center of the Global Financial Safety Net, facilitating and coordinating support from other International Financial Institutions, Regional Financing Arrangements, and bilateral donors, as well as (if called upon) between members with established bilateral swap lines.*

With the crisis evolving quickly, the Fund recognizes that speed is of the essence. To this end, planning is also underway to ensure that, if the crisis deepens, additional contingency measures can be activated rapidly.