

# 5-Step Policy Response Plan for COVID-19



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Clay Lowery, Executive Vice President, Research and Policy, [clowery@iif.com](mailto:clowery@iif.com)

The COVID-19 pandemic has created a global health crisis. When combined with an oil producer price war, [it has led to a global economic recession](#), a sudden shock in global capital markets, credit stress in a number of jurisdictions, [signs of a dollar shortage](#), and [unprecedented outflows from Emerging Markets](#).

The Institute of International Finance (IIF), which represents more than 450 financial institutions from approximately 70 countries, has worked with the private and official sectors for almost forty years to analyze and consider policy approaches that can address economic and financial crises – whatever the trigger. While each crisis is different, there are some hardy perennials; perhaps most importantly, we live in an integrated global system, and thus a globally integrated approach will be most effective. For instance, one of the most forceful parts of the global response to the Global Financial Crisis (GFC) in 2008 was the G7 coming together and releasing a short, blunt, coordinated and action-oriented statement – backed by actual policies.

With this lesson in mind, the IIF outlines below some of the key policy tools that international economic policymakers should be striving to use, now. No one action can turn the tide, but international coordination will prove crucial to limiting the damage.

First and foremost, it is imperative to recognize that the crisis we face today is a public health crisis and, as such, we must enhance our testing capabilities to improve the accuracy in reporting the number of individuals who are positive for COVID-19. This also means working to ensure that our healthcare workers and first responders have the training and equipment they need, while also supporting our scientists, researchers, and medical professionals in their efforts to find a treatment to fight the virus.

As for international economic and financial policies, we have identified an action plan comprised of the following five elements:

## 1. DOMESTIC STIMULUS:

The IIF applauds the actions and policy proposals being considered in individual countries to try to limit the damage, stabilize the financial system, and promote economic recovery. In an attempt to catalogue these actions, [the IIF has a list](#) of the different programs being proposed across a number of jurisdictions, including monetary, fiscal, and macroprudential regulatory policy.

- ***Monetary Policy:***

Monetary authorities have been aggressive and creative with different monetary tools, including interest rates, quantitative easing, forward guidance and expanding the type of assets they could purchase.

- ***Fiscal Policy:***

While the IIF is supportive of coordinated fiscal action, we recognize how difficult this is. We would advocate individual jurisdictions taking substantial action to undergird the social safety net, target assistance to industries that will be hardest hit, and provide stimulus measures aimed at boosting the economy.

## 2. DOLLAR LIQUIDITY:

Liquidity for financial and non-financial corporates is vital in a crisis. For the international system, the role of the dollar is at its core.

- ***Federal Reserve Swap Lines:***

The USD is in a privileged position as the world's reserve currency. With this position comes the responsibility of keeping the global financial system stable. In that context, the IIF commends the Federal Reserve for opening its swap lines this past week to both developed and emerging markets and recommends that it be open to considering expanding such lines to other jurisdictions.

- ***International Monetary Fund (IMF):***

Unlike during the GFC, the IMF now has in place several credit facilities that are not reliant on putting in place a full economic program and, instead, can work more like a liquidity facility. We applaud the IMF for making clear that these credit facilities are available, but we would recommend that they work with some of their key members to find a way to lessen any stigma that appears to be attached to utilizing these facilities.

### **3. WORLD BANK & REGIONAL DEVELOPMENT BANKS:**

The multilateral development banks (MDBs), led by the World Bank, play a vital role in providing finance to the poorest countries around the world. Many of these countries have not yet been hit with the COVID-19 pandemic, but their preparedness should be increased, and the MDBs should be ready to assist them via multiple pathways. For instance:

- The MDBs should help countries' health systems – particularly in detecting, monitoring, and reporting about the virus; training front-line workers; and equipping hospitals.
- The MDBs should consider assisting countries with trade finance as there is potential that the private sector may step back at some point.
- Shareholders of the MDBs should be prepared to provide more capital to these institutions as they may need to expand their balance sheets.

### **4. TRADE PROTECTIONISM:**

To avoid the “beggar thy neighbor” policies exhibited during the Great Depression in the 1930s, the international community stepped up in 2008 and 2009 to limit trade and investment protectionism. A similar effort should be made now.

- At a minimum, jurisdictions should lower tariff and non-tariff barriers to cross-border trade of medical goods and services.
- The United States – followed by other countries – should reduce the tariffs put in place over the past two years (even on a temporary basis). Consumers and producers alike need a more efficient system during difficult times, not another tax.
- All G20 countries should relax data localization requirements so that important medical data (including clinical trials) can be transferred and accessed on a global basis

## 5. G20:

Saudi Arabia has called for an urgent G20 Leaders conference call next week. The G20 should call on the international community in a short, action-oriented statement to take many of the actions noted – particularly ensuring that health care products and services flow freely across borders and specifically to those countries most afflicted by this pandemic.

- The G20 countries should resolve the global price war on oil markets – led by two key members in the G20: Saudi Arabia and Russia.
- The G20 established the Financial Stability Board (FSB) in the midst of the GFC. Certain financial supervisors and regulators have helpfully stepped forward to allow financial institutions to use space provided through capital buffers. The G20 should task the [FSB](#) with making such [actions as coordinated as possible](#).