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How the G20 Can Hasten Recovery from COVID-19

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1 Introduction

The G20 not only should but *can* be meaningfully useful to recovery from the COVID-19 pandemic

Maurice Obstfeld and Adam S. Posen

The global financial crisis of 2008–10 brought the Group of Twenty (G20) into being. Nearly 12 years later, what we have misleadingly called the postcrisis period has proven to be a mere pause between savage global shocks—this one the result of a global pandemic—demonstrating that international cooperation is a recurrent need. The G20 must rise urgently to the challenge as it did in the last global crisis, but even more forcefully with more lasting commitment.

This *PIIE Briefing* sets out ten policy areas where practical near-zero cost collective actions can meaningfully speed the return of global health, physical as well as economic. Fruitful areas of cooperation range from disease control, to international trade, to financial policy. Importantly, many of our recommendations are simply for mutually binding and beneficial changes in government behavior, whether forswearing self-defeating aggression in trade or agreeing to lean together against dollar shortages and excessive capital flows; no additional expenditure is needed, just getting past mutual distrust. Most of our other recommended policies require only small investments, like in health innovation, or self-liquidating ones, like in central bank liquidity provision. This is the proverbial low-hanging fruit. Leaders just need the vision and will to act collectively to grab it. Collective action, and the small allocation of additional resources, primarily to the world's poor, will be rapidly repaid.

When the world faces a common economic threat, cooperation between the governments of the most important economies is both attainable and genuinely worthwhile. G20 meetings can be more than just a formal photo-op with a barely changing communiqué on substantive policy measures. We saw this in the first two leaders' meetings of the G20 in 2008 and 2009, where the agreements reached helped put a floor under the global economic freefall (see the resultant April 2009 communiqué). The key is **commonality** of the threat—not that every economy is suffering in the same way and amount as the others, but that all economies need to move in the same direction at roughly the same time. That is unquestionably the case today with the COVID-19 pandemic shutting down economic activity and people's livelihoods around the world, while increasing demand for medical expenditure and public health cooperation.

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In a global economic crisis, the G20, and international economic cooperation in general, can be useful in four ways:

- Increasing domestic compliance with best practice through transparent peer pressure.
- Stopping financial panic.
- Preventing mutual economic aggression from worsening the crisis.
- Helping the world's poor survive the crisis fallout.

All of these would be important contributions to global recovery. So far, the G20, and particularly the working group of central bankers within it, has been remarkably quick to take on the second task, stopping financial panic. Within advanced economies' financial markets, at least, their stabilization measures have been effective. The G20 has also taken some steps toward using transparent standards to improve members' public health management and investment, though these have been insufficient. The latter two areas of potential gains—preventing escalation of economic aggression and helping the world's poor—have seen more lip service than meaningful action so far, despite efforts to encourage more cooperation through the International Monetary Fund (IMF), World Trade Organization (WTO), World Bank, and World Health Organization (WHO). Economic nationalism harms everyone, particularly the world's poorer countries but also the vulnerable within the G20 members' own borders. Preventing it would, therefore, significantly improve human welfare in comparison with the alternative outcome now emerging in the absence of more positive G20 action.

PRACTICAL POLICIES AND PAYOFFS DESPITE DISTRUST

Here is where the commonality of the threat from COVID-19 comes in: Making progress on collective action would be win-win in each of the four areas where international cooperation can yield benefits. A useful G20 agreement today does not involve horse-trading about which country gets a better deal, let alone having some countries put in resources now to get benefits promised in some uncertain future. All G20 economies will benefit today from cooperative action.[1] Too commonly, economic policymaking is depicted solely as the management of tradeoffs, given limited resources. While that is often the case for domestic policymaking, in the international sphere the opposite holds as frequently: Cooperative action raises new opportunities and prevents harms for all participants simultaneously. Difficulty arises when the distrust born of a zero-sum

1 This is in contrast to the types of deals attempted in the G7 and other international forums—occasionally successfully, but usually not—which have sometimes asked member economies to make differentiated contributions or to trade off some kind of donation now for getting their own payoff later. Part of the reason for the skepticism about G20 cooperation being achievable or useful today is the track record since the 1978 Bonn Summit of such deals failing due to either free riding or exploitation of some participants by others. Arguably, the G20 is seen as having accomplished little since 2011 because it made unsuccessful attempts in this direction. That is also why the current situation of a truly global pandemic is different, and akin to the 2009–10 period when G20 cooperation delivered.

mindset, which may be accurate for some other aspects of international relations or domestic interest group bargaining, prevents collective action on economic crisis response.

Of course, international distrust is the name of the game today, particularly between the Trump administration and counterparts in Beijing and Western European capitals. Some of that distrust originates in the understandable frustrations of domestic publics in the United States, European Union, and elsewhere over longstanding frictions and disappointments in the sphere of international trade. Some is the result of the Trump administration's aggressive bilateral approach toward allies and non-allied governments alike, as well as its visceral disdain for international organizations. Some distrust has been spawned by China's insufficiently responsible treatment of others despite its rapid rise in the global economy—an image fed, fairly and unfairly, by the Chinese leadership's nontransparent handling of the initial COVID-19 outbreak there. Yet another source of distrust is both illustrated and fed by the European Union's internal divisions, which reflect an uneasy coexistence of ambitions for integration and national or local bases for legitimacy. And some distrust is the seemingly inevitable result of countries' fears that the virus will leave some of their own citizens with the short end of the stick when there are limits, actual or perceived, on access to medical equipment or other resources.

Despite all these sources of distrust among G20 governments, significant self-harm will result if mutual suspicion dominates countries' actions. Put simply, in the COVID-19 pandemic, lack of international cooperation will mean that more people will die, not just in the developing world, and many more otherwise viable businesses and jobs will not survive. Many of the actions G20 countries are taking in their own interest—such as fiscal support and disease mitigation—are necessary to avoid economic collapse and to save lives, but they are not sufficient to achieve those objectives effectively on a global scale. However, escalating fear-based nationalist policies—like export controls on medical supplies and attempts to control vaccine or testing technologies for one's own primary use—are not only damaging for the world but also are already backfiring in their own terms on the countries that impose them, as shown in the chapters by Chad P. Bown and Maurice Obstfeld in this *Briefing*. Such reflexive or seemingly defensive exercises of distrust make it harder for those who have the misfortune of being born in the wrong place, or the wrong part of the income distribution in the rich world, to get medical assistance.

THOSE WITH FISCAL SPACE SHOULD USE IT TO MEET THE CRISIS

The correct principles to guide fiscal policy are clear, and high-income (and some middle-income) economies have converged on similar programs accordingly. First, spend whatever it takes to expand health care capacity where there are viable delivery systems, to speed creation and production of testing materials for COVID-19 infection and antibodies, and to accelerate research on antiviral treatments and a vaccine. Second, give essentially the entire economy a bridge loan to preserve businesses that were viable before the crisis so they can resume operations quickly when the health crisis abates—and tie those rollovers, loans, and grants to maintaining the jobs that those businesses would normally provide. Third, support the basic needs of those who lose their livelihoods in the

pandemic and its aftermath. And fourth, prepare forms of stimulus that may be needed to bring the economy out of stasis and back from high unemployment when the pandemic lifts. To whatever extent stimulus proves necessary then it will have to be fiscal—interest rates already being zero or negative—although monetary policy can expand the fiscal budget constraint by keeping interest rates low (American Economic Association 2020).

Ironically, the somewhat troubling macroeconomic situation we were in as the crisis began—low and declining interest rates and inflation, persistently low productivity growth, disappearing wage pressures, excess saving and its counterpart, lack of demand for risk assets and private investment—is one that facilitates the effectiveness of G20 fiscal action. As Olivier Blanchard explains in chapter 3 in this *Briefing*, the high-income and some middle-income countries have fiscal space because interest rates are so low and because the returns on public investment are so high relative to those interest rates. Meanwhile, the multiplier on income transfers and spending on human needs should be extremely high, well above one, in response to this temporary though historically severe shock, and given the lack of crowding out at current interest rates. The coincidence of fiscal expansions, driven by each economy's own domestic challenges, means that there is little or no free riding in the G20 on this score, and any "leakage" of one's own stimulus abroad is offset by others' spillovers.[2] In this case, fiscal coordination is largely automatic. An important caveat, however, is that many emerging-market and developing economies have neither the fiscal space nor the price stability track record to undertake large fiscal responses without external financial support. As discussed below, several chapters in this *Briefing* propose ways to provide that support.

The global nature of the health challenge leads naturally to an agenda for international collaboration on public health and research expenditures proposed by one of us (Obstfeld) in chapter 2 in this *Briefing*. The underlying points are two simple ones: Whatever amount is spent directly on necessary health care and R&D in response to COVID-19 will be small, if not second order, compared with the costs of not defeating the disease. There are huge economies of scale in production and even greater benefits to sharing knowledge and information in research in real time. So G20 members should encourage each other to go big on health care, to pool production to quickly resolve shortages of vital medical supplies and above all to jointly create incentives for an open environment conducive to rapid medical research. The more the infection comes under control around the world, including in poorer countries that are likely to be hit hard, the lower the chances of second or third waves of pandemic outbreaks. And the more widely testing and new health technologies are disseminated, the faster they will improve health outcomes to the benefit of all. The existing infrastructure of international health cooperation should be better funded and expanded.

2 This may be why there has already been a great deal of convergence on design and scale of fiscal and monetary policies adopted by G20 members. (The wisdom of current policymakers who learned from the last crisis and the near unanimity of economists across the partisan span of the profession also deserve some credit.)

THE G20 CAN REPLACE WORDS WITH DEEDS ON TRADE AND IT WILL REALLY MATTER

The traditional macroeconomic and financial focus of the G20, however, is not enough, even with greater focus on public health spending. International trade, migration, and cross-border investment are first-order concerns in facing the pandemic, particularly for the developing world. While larger economies lose efficiency and purchasing power over time when turning inward, they can survive a long while despite the costs. For developing countries, being cut off from hard-currency income in the form of lost exports and remittances is a matter of life and death. When larger wealthier economies start blocking exports of food, medical supplies, or other critical resources, they may hurt themselves by inviting other countries to retaliate, but their actions directly imperil lives in poorer countries. Emerging-market economies that emulate the short-sighted "homeland first" approach to such critical resources, as India is now doing, may feel the negative consequences even more sharply.

Over the longer term, looking even just a few years past the pandemic, escalating deglobalization could lead to greater corruption and lower productivity growth in the rich West, with slow but pernicious effects. For the global South, cutting off access to global opportunities, inputs, engagement, and technology will have devastating effects rapidly, and impede any recovery from the crisis (Goldberg 2020; Posen 2018). The impressive convergence that has narrowed the per capita income gap between rich and poorer countries over the last 20 years could cease, even as the richer countries stagnate. Even the huge progress poorer countries have made on health outcomes could reverse, just as Cullen Hendrix in chapter 5 points to the plateauing of progress on basic nutrition provision in recent years. Of course, malnutrition and susceptibility to disease reinforce each other, increasing the damage of pandemics like COVID-19 and defeating their containment.

The G20, therefore, needs to add real substance to its ritualized pledges on trade and not leave the prospects for trade cooperation, especially on key inputs to health and food security, at the feet of the deadlocked and undeservedly beset WTO. As Chad P. Bown, Anabel Gonzalez, and Cullen Hendrix compellingly argue in chapters 4 to 6 of this *Briefing*, the major economies can provide useful leadership that actually matters in the trade arena.

- All G20 countries should lift export restrictions on critical medicines, medical supplies, and basic foodstuffs. Rich nations and exporters of these goods should stockpile an adequate amount instead and make their production available to the market beyond that level.
- These stockpile efforts—transparently disclosed to the world along with tracking of shortages—can be used to pop bubbles in prices and address localized shortages or supply interruptions.
- G20 governments, starting with the United States, must recognize the reality that all wealthy economies import components and supplies for production of medical goods and that all poorer economies are completely dependent upon imports for such health-related goods.

- As a result, elected officials' hostility to supply chains is self-defeating, leading to shortages and retaliation in the very short run. Harassment of companies to restrict their sourcing is similarly counterproductive.
- G20 member countries, but particularly the G7 and China, should coordinate at the technical and administrative levels to facilitate trade in health-related products, especially for those, like a COVID-19 vaccine when ready, that require special handling for successful distribution.
- Intellectual property protections must not be allowed to interfere with the prompt administration of pandemic-relevant medicines and associated technical knowledge.

Returning to where we began: G20 cooperation can now succeed, even in the contentious trade arena. The preceding policy steps would simultaneously enhance market size and demand for all G20 members and increase all their citizens' purchasing power. They deliver a win-win. The primary beneficiaries of cooperation in trade areas now under stress would of course be the world's poor, but all would benefit from increased availability of critical goods needed to fight and overcome the pandemic.

ENDING THE FINANCIAL PANIC AND SUPPORTING THE DEVELOPING WORLD

As previously noted, the stabilization of advanced-economy financial markets, especially the critical government bond and interbank lending markets, has been largely successful. So the G20 agenda for preventing financial panic should focus instead on three crucial areas of international spillovers. One is straightforward, at least in principle: monitoring the risks to financial stability that may accumulate among those lenders and institutions that bear the burden of rolling over temporarily the global economy's debts. This is where peer pressure for transparency and agreement on the nature of the indicators to watch plays a useful role—we are all too familiar from the run-up to 2008 how hidden international financial linkages can transmit instability across continents. The Financial Stability Board (FSB) is the well-functioning organizational instrument of the G20 that should undertake this monitoring. Especially because credit standards will necessarily be relaxed in response to the crisis, the buildup of positions must be tracked and communicated to regulators.

Second, the G20 should be extending the financial "safety net" of hard-currency liquidity as widely as possible. In times of heightened global fear and genuine risk, there is flight of capital from riskier assets into advanced-economy government bonds, and especially from emerging-market and developing markets into US-based dollar-denominated assets. The recent scale of capital outflow from the developing world has already exceeded the total outflow of funds from those economies during the entire 2008–10 crisis. Yet, financial systems around the world, as well as sovereign and private borrowers, need liquidity, especially in US dollars, to finance their cash flow requirements, including rolling over debt that would be sustainable in the absence of capital flight. There are several components to providing bridge loans for at least some borrowers in emerging-market and developing economies, notably their

governments, which will face huge costs due to the human health and economic toll of COVID-19. These policy measures are set out in several of the contributions to this *Briefing* and include:

- Extending the network of central bank swap lines and secured borrowing against official holdings of US Treasuries well-beyond G20 countries and currencies (chapter 9 by Christopher Collins, Simon Potter, and Edwin Truman).
- Agreeing on a standstill on developing-country sovereign debt payments to both official- and private-sector creditors (chapter 8 by Anna Gelpern, Sean Hagan, and Adnan Mazarei).
- Funding facilities at the International Monetary Fund and World Bank that will provide emergency loans and direct aid to governments to purchase necessary medical supplies and provide some basic human needs (chapter 7 by Simeon Djankov).
- Issuing more special drawing rights (SDR), the IMF's international reserve asset, to ease financial conditions in low-income countries, which the IMF needs G20 members' buy-in to do (chapter 10 by Christopher Collins and Edwin Truman).

Third, the G20 has to take into account the importance of the dollar to financial and real transactions throughout the world economy.[3] This means that excessive dollar appreciation has to be resisted and managed. Some appreciation of the dollar is inevitable due to flight to safety and to the still relatively better prospects for the US outlook than in other major economies (despite the terrible spread of COVID-19 in the United States at present). As analyzed by Christopher Collins and Joseph Gagnon in chapter 11 in this *Briefing*, this general appreciation is not the result of any active currency manipulation by G20 members or other sizable economies, especially given the common simultaneous shock and the generally similar monetary and fiscal stances undertaken.

In a bitter irony, most developing countries and even many higher-income economies wish that their currencies were not depreciating so much against the dollar right now, in contrast to the usual concern expressed at the G20 by successive US governments. And those countries are right to be concerned: Critical imports of medical gear and other human needs, debt payments denominated in dollars, and credit for the private sector more broadly become far more expensive when the currency depreciates against the dollar. Until the crisis abates, the G20 should not rule out coordinated intervention if there is sharp further dollar appreciation. Even if we are usually skeptical about the effectiveness of sterilized foreign exchange intervention, under the current monetary and political conditions a joint intervention has a good chance to be effective by signaling a consensus official view. Moreover, interventions to bid

3 This is a long-standing systemic concern, though the current crisis exacerbates the costs of excessive dollar dependence in international trade and finance. See Carney (2019).

up emerging-market or developing-economy currencies against the dollar have a much better chance of working than interventions against the widely traded currencies of advanced economies.

ALL OR NOTHING TIME FOR THE G20

The way the G20 addresses the present global crisis will have ramifications that persist long after medical science produces the fundamental answers to preventing and treating COVID-19. In the past few years, the structure of international cooperation built up after World War II has frayed as never before, and across the world, economic nationalists are opportunistically driving governments further apart. Nationalistic responses to current shared challenges not only will be collectively damaging but also will leave a legacy of heightened distrust and even bitterness that will further damage the prospects for dealing with imminent global threats beyond the current crisis. Those threats include not just future pandemics but additionally the ongoing and massive tragedy of the planetary commons—the climate crisis. Productive G20 action now will deliver immediate worldwide gains in terms of lives saved and jobs recovered and also demonstrate the power of global cooperation and set policymakers on a better path. The price of failure is a less prosperous and more dangerous world.

2 The G20 must step up to confront the global health crisis

Maurice Obstfeld

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Microbes do not recognize national borders. For that reason, infectious disease is an example *par excellence* of a threat requiring intergovernmental cooperation. In a welcome communiqué, G20 leaders have called for greater international collaboration on the public health response to COVID-19. But this commitment lacked the necessary detail to trigger fast concrete actions and provide guidance and reassurance for citizens. Instead, the leaders tasked health minsters to develop "urgent actions" by April 19-20, 2020. As the virus continues to spread, posing particular dangers to ill-equipped poorer countries, the ministers should quickly adopt specific, coordinated, and comprehensive steps in two categories:

- Deploy international resources to attack COVID-19 more effectively, especially in lower-income countries, which must also be part of any coherent global containment strategy. Because a vaccine may not be ready for 12 to 18 months, the G20 should immediately strengthen the global architecture for infectious disease control—the set of institutions monitoring and responding to outbreaks and coordinating international action—to prevent and (in the worst case) manage future pandemics before memories fade and complacency returns. Doing so would also speed economic recovery.
- Undertake a detailed international study of what has gone wrong in the current crisis. How might countries have managed the response to COVID-19 more effectively, and what future global safeguards will prevent a recurrence? Data collection now, in real time, is essential to avoid repeating mistakes.

IMMEDIATE ACTIONS

As the G20 countries implement public health responses and undertake unprecedented fiscal and monetary support for their own economies, it is important that they keep in sight two vital principles of international cooperation: (1) invest in areas where international synergies amplify benefits and (2) avoid self-interested actions that are collectively harmful when pursued by all.

Since 1948, the main locus for international cooperation in public health has been the World Health Organization (WHO). The G20's March 26 communiqué rightly commits to "strengthen[ing] the WHO's mandate in coordinating the international fight against the pandemic." One avenue would be through an immediate increase in funding. The WHO's program budget for 2020–21 is $4.8 billion, of which a large majority consists of voluntary contributions from private as well as official donors that often are earmarked for specific uses. G20 countries should call for an immediate increase in assessed, and thus unrestricted, contributions from member governments. Even a $1.5 billion

increase would better than double the WHO's unrestricted funding. Scaling up the WHO's Global Outbreak Alert and Response Network (GOARN) should be a priority, and G20 countries should additionally commit specific sums to the WHO's COVID-19 Solidarity Response Fund.

Rapid development of vaccines, antiviral treatments, and diagnostic tools will be key to an effective global response. Support for key NGOs and public-private partnerships such as Gavi, the Vaccine Alliance, and the Coalition for Epidemic Preparedness and Innovation (CEPI) can accelerate the development of pharmaceutical interventions, which is ideally pursued along parallel tracks using diverse approaches, with full sharing of research results in real time. Here too, specific government funding commitments are necessary, as well as government guidance to private industry on public health priorities and attention to assuring that the production and distribution of future vaccines worldwide will be rapid, efficient, broad, and affordable.

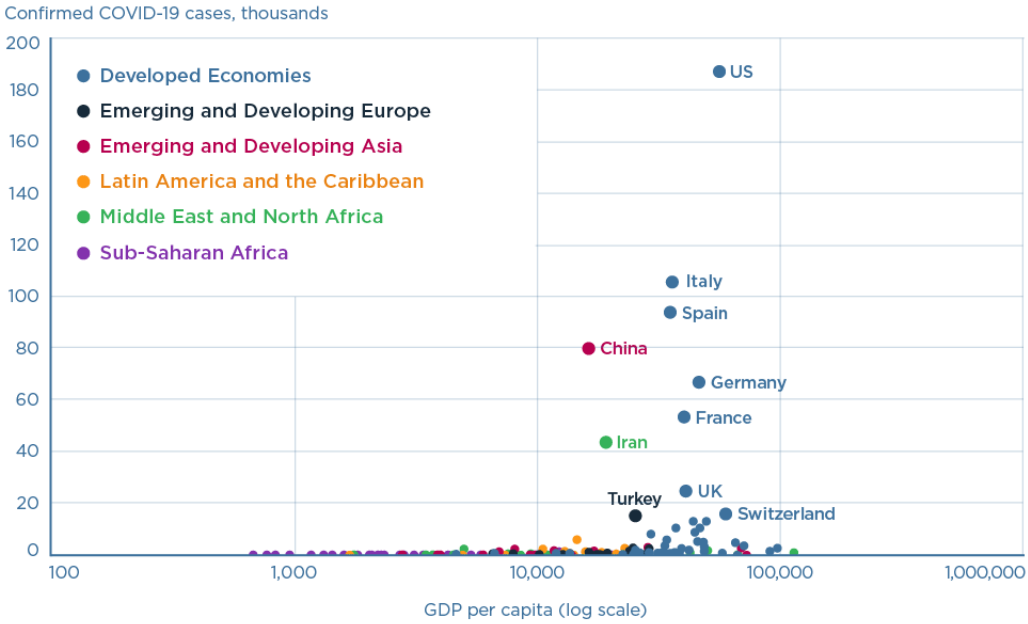
In 2005, 196 countries, including all WHO member states, agreed to binding International Health Regulations (IHRs) governing national commitments on core health capacity, disease-related restrictions on trade and travel, and outbreak reporting. Some of these rules aim to discourage countries, for example, from delaying reporting disease outbreaks for fear of becoming the target of medically unnecessary travel restrictions. IHRs have been imperfectly implemented over the years, however, including the recent free-for-all approach to travel restrictions, and the G20 communiqué rightly acknowledges the need for "full implementation" of the IHRs. That goal will require heightened multilateral consultation, monitoring, enforcement, and technical assistance.

The COVID-19 pandemic caught countries dramatically unprepared in terms of medical equipment—ranging from protective gear to testing kits to ventilators—as well as surge hospital capacity. One counterproductive aspect of the recent crisis response has been the use of export restrictions on medical equipment by some countries. Such restrictions can reduce the availability of equipment even in the exporting countries. Moreover, export restrictions make it less profitable for suppliers to expand production to meet evolving world demands, thereby hampering the global response to the pandemic and costing lives. The G20 should oppose them. Perversely, numerous countries including the United States still maintain tariffs or nontariff barriers for imports of products critical to fight the disease, such as soap, disinfectants, and medical equipment. Removing these trade barriers would not only help the importing countries counter COVID-19 more effectively but also keep global production and supply chains for these products moving more efficiently.

It is clearly critical for countries everywhere to ramp up production of medical inputs, as the G20 has urged, and to coordinate those efforts through the WHO. In reality, though, while some medical gear can be produced anywhere, different countries have different comparative advantages in some links of the medical supply chain, so international collaboration and information exchange to identify and eliminate key bottlenecks can benefit everyone. The G20 should commit to strengthening the WHO's Pandemic Supply Chain Network, which could help to avoid shortages of key products and inputs, for example, the reagents needed to isolate the RNA of the SARS-CoV-2 virus causing COVID-19, ventilator components, and antiviral drugs.

COVID-19 will soon hit lower-income countries hard. The G20 must cooperate to help them.

Confirmed COVID-19 cases vs GDP per capita



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Note: GDP per capita data are from 2018 (and 2017 where 2018 data are unavailable). They are based on purchasing power parity (PPP) and are in constant 2011 international dollars.

Sources: COVID-19 cases: Our World in Data, ourworldindata.org (accessed on April 1, 2020); GDP per capita: World Bank, *World Development Indicators*.

While advanced economies can slow virus spread by practicing social distancing, the luxury of this approach is unavailable to the majority in poorer countries. Even regular handwashing is more difficult when running water is not easily available. We can therefore expect COVID-19 to very soon have especially devastating effects in poorer countries. The figure suggests how much scope there is for COVID-19 cases to balloon in relatively poor countries, including many of the poorest located in sub-Saharan Africa.

The pandemic threat will remain active throughout the world until the virus is contained everywhere, so even apart from humanitarian concerns, it is in the interest of richer countries to channel resources to help poorer countries control and treat the disease. Moreover, twin health and economic disasters could trigger outward migrations from lower-income countries on a biblical scale.

An obvious first step is for the G20 to endorse the International Monetary Fund (IMF) and World Bank calls to suspend the poorest countries' debt payments to official creditors. But even this action will not be nearly enough. The G20 should call for full funding of the WHO's Contingency Fund for Emergencies (CFE) and, indeed, for the CFE's augmentation beyond the current $100 million aspiration. The UN's Central Emergency Relief Fund (CERF) is another mechanism for quickly getting resources to pandemic-stricken nations, but it has struggled to come close to its annual donor funding target of $1 billion. Even that

sum is inadequate in the current crisis, and the G20 should underwrite a higher level of sustainable funding. Countries should also support the IMF's Catastrophe and Containment Relief Trust, established in 2015 to address the Ebola outbreak.

In addition to calling for permanent augmentation of these various standing sources of support for emerging-market and developing economies, the G20 should coordinate exceptional pandemic support in a way that ensures the right resources flow to the areas of greatest need. Existing bilateral commitments in the health field could be consolidated and, in some cases, repurposed for COVID-19 containment and treatment at the same time that wealthier countries pledge new resources for the current health crisis. The Global Fund to Fight AIDS, Tuberculosis, and Malaria has proven to be a highly effective financing instrument with broad experience since 2002 in funding prevention, treatment, and care in low- and middle-income countries. Countries in emerging Europe, South America, Africa, and Asia are already using Global Fund resources to fight COVID-19, but the available resources need to be levered up dramatically. Particularly in sub-Saharan Africa, the comorbidity of COVID-19 with AIDS or tuberculosis is likely to be especially lethal. The UN COVID-19 Response and Recovery Fund, established at the end of March 2020, is a new funding instrument with a wide remit covering not only pandemic response but also broader strengthening of social infrastructure and safety nets.

Looking a bit farther down the line, mechanisms should be put in place to finance the large-scale rapid distribution of vaccines and treatments to poorer countries.

Absent generous aid from higher-income countries to mitigate the health crisis, restructuring of some private debts is likely in the cards, with creditor-country central banks and regulators moving to limit any financial fallout.

While the origin of the current COVID-19 crisis is uncertain, the evidence is clear that zoonotic transmission has been involved in several pandemics. As experts have advocated, the G20 should call on all countries to outlaw trade in and consumption of wild animals and, if they have already done so, to enforce their laws rigorously. Of course, even eliminating this risk factor will leave the possibility of other naturally occurring as well as manufactured microbial threats.

NEED FOR A POST-MORTEM

The global public health system failed to produce a globally successful coordinated response to the outbreak of COVID-19. Much fault lies with individual governments, but the failure also reflects mechanisms of international coordination that, in retrospect, appear too weak. A key task for the postcrisis period is a detailed international study of weaknesses in country responses, as well as the modes of response that were most successful. Also necessary is an evaluation of ways in which international cooperation failed. Only with this knowledge can countries come to a common understanding of best practice, without which coordinated action will continue to prove challenging.

In a well-known study of about three decades ago, economist Richard N. Cooper contrasted the evolution of international public health cooperation, which he judged as a success, with the prospects for macroeconomic policy cooperation, which he judged to be less favorable. He argued that whereas macroeconomists fundamentally disagreed on both policy effects and objectives,

public health cooperation had the benefit of scientific consensus on the causes and treatment of diseases. As he put it: "[I]nternational consensus about practical knowledge, along with shared objectives, is a necessary condition for close international cooperation."

That consensus has been lacking in the recent crisis and has contributed to halting and sometimes nationalistic responses. Although novel pathogens may challenge scientific consensus beyond the better known scourges (such as cholera, plague, and smallpox) that public health initiatives have successfully controlled in the past, the current experience will yield a rich dataset—with variation not only across but also within countries—on what policy approaches have been most useful and at what economic cost. Once infection and antibody tests become more widely available, random population testing can not only limit contagion but also provide valuable supporting data for retrospective analysis. Such a research effort, endorsed by the G20, can form a strong basis for a future consensus on best practice—a consensus that can support international cooperation when future microbial threats emerge.

And it is perfectly foreseeable that they will; indeed, many predicted something like the current outbreak. To take one example, the WHO/World Bank Global Preparedness Monitoring Board (GPMB) warned in their September 2019 inaugural annual report:

> High-impact respiratory pathogens, such as an especially deadly strain of influenza, pose particular global risks in the modern age. The pathogens are spread via respiratory droplets; they can infect a large number of people very quickly and with today's transportation infrastructure, move rapidly across multiple geographies.

Sadly, the few weeks between this warning and the emergence of the SARS-CoV-2 virus were insufficient for progress on the GPMB's recommendations for enhanced global cooperation. The G20 now has the opportunity to advance that agenda, while also creating a more extensive base of knowledge to support future cooperation.

3 Designing the fiscal response to the COVID-19 pandemic

Olivier J. Blanchard

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The fiscal policy response to the pandemic has been unprecedented. Urgent measures are being taken, which are likely to lead very large fiscal deficits. The response will have to be refined and adjusted over time, as a function of both the pandemic dynamics and our improving understanding of the issues.

The purpose of this chapter is to think about the best design of fiscal policy, both now and in the near future. The conclusions can be stated as follows:

In this crisis, fiscal policy should have three goals. The first is to fight the virus. The second is to provide disaster relief, to ensure that people do not suffer from hunger and firms do not go bankrupt. The third is to adjust aggregate demand to stay as close to potential output as possible. Each of these three dimensions comes with its own set of challenges and difficult decisions.

Such policies will result in a large increase in debt relative to GDP. In most advanced countries, interest rates are likely to remain low for a long time, so that, despite this increase in debt ratios, debt should remain sustainable. The same cannot, however, be said of several emerging-market and developing economies. These countries should be helped so that they can spend what they need to spend to deal with the crisis. Forcing them to spend less would be wrong and dangerous for others. They will, therefore, need grants and loans, by both international institutions and individual advanced economies, which themselves have to spend to save their own economies.

There are two dimensions in which coordination across countries is essential. Help for emerging-market and developing economies is of the essence. Looking down the road, coordination in the purchase and allocation of tests and vaccines is equally so. But, beyond this, coordination of fiscal policies is not essential. Put another way, if every country focuses only on its domestic goals, the outcome will be fine.

THE THREE ROLES OF FISCAL POLICY IN THE COVID-19 CRISIS

- The first is infection fighting, spending as much as needed both to deal with the infection now and to give incentives to firms to produce tests, drugs, and vaccines, so that the pandemic can be both brought and kept under control.
- The second is disaster relief, providing funds to liquidity-constrained households and firms. Many households do not have the cash to survive the next few months without financial help. Many firms do not have the cash to avoid bankruptcy without some help. Providing financial relief is essential to avoid extreme suffering and permanent damage to the economy.

- The third is support of aggregate demand, to make sure that the economy operates as close to potential as it can, recognizing that potential is, for the moment, profoundly impaired by the health measures needed to decrease the infection rate.

Infection fighting

Infection fighting is a no-brainer. Getting the infection rate down is an absolute priority. Apart from confinement/lockdown measures, more tests, more respirators, more masks and other vital medical gear are essential. In the short run, the constraint is largely technological, but more funds can help attract firms and workers with the relevant skills to accelerate production. Keeping the infection rate down will be essential to the recovery, which implies giving incentives to firms to produce tests, explore drugs, and develop vaccines.[1] A large scaling up in the production of tests, to test either for the virus or for antibodies, can make a substantial difference in the speed at which confinement restrictions can be relaxed while keeping the infection rate down.[2] The bottom line, however, is that spending on containing the infection is essential, existential, and expensive but still small in macroeconomic and budgetary terms—less than 1 percent of a country's GDP.

Disaster relief

Disaster relief is also a no-brainer. A large proportion of households has no cash reserves. Because of either low demand or forced lockdown, many small and medium size enterprises, which represent 45 percent of total value added in the United States, have insufficient cash reserves to survive more than a few months.[3] It is of the essence to provide them with enough cash to survive the crisis.

The main issue is how to quickly get the funds to the people and firms in need. Much work is going into how to do it, with different solutions in different countries. These run from suspending or canceling tax payments, to increasing unemployment benefits, to sending checks, to asking firms to advance the funds to workers, to asking banks to advance the funds to firms in need, with the state providing the final backstop.

None of these distribution channels work perfectly. Information about who needs the money is limited; reaching those who need it the most is difficult. The implication is that, whatever combination of delivery is chosen, it is better to err on the side of giving too much rather than too little. This may, however, result in a large package. Consider the following back-of-the-envelope computation for a plausible upper bound: Assume that 40 percent of the firms and households

1 This may be a good time to revisit Michael Kremer's proposals on how to reward research in a similar context.

2 Paul Romer has argued that testing 7 percent of the US population (22 million people) every day would allow to fully remove the lockdown and still keep the infection rate down. He also argues that it may be feasible to achieve such a number within a few months for a few billion dollars, a large cost but still small relative to the potential increase in output.

3 According to a Federal Reserve survey conducted in 2018, only 61 percent of those surveyed would have enough liquidity to pay for an unexpected expense of $400. According to a September 2019 study by the JPMorgan Chase Institute, half of US small businesses have less than 15 days' worth of cash on hand.

are liquidity-constrained, that the replacement rate is 80 percent, so the state replaces, say, 32 percent of lost income. Suppose that nonessential firms are on lockdown, that output goes down by 35 percent (which is in the range of the preliminary numbers for economies on lockdown, such as France[4]). Assume that the funds take the form of grants rather than loans, an issue to which I return below. The fiscal cost per month is 35 percent times 32 percent, thus 11 percent. If the economy is, say, on full lockdown for two months and on half lockdown for another six months, the fiscal bill will be about 5 percent of GDP.

Supporting aggregate demand

In a normal recession, control of aggregate demand would be the main motivation for using fiscal policy. This, however, is a not a normal recession, and it has important implications. In the short run, so long as confinement and lockdown constraints are on, potential output will remain much lower. Based on the French number cited above, the decrease in potential output, based on confinement and lockdown of all nonessential firms, probably ranges between 30 and 40 percent. Governments must accept a corresponding decrease in demand (importing from abroad is not an option; this is a world war against the virus). Put another way, sustaining demand above potential, say through tax cuts for firms or households, may lead to rationing and inflation rather than an increase in activity.

This raises a question about the size of the disaster relief package discussed earlier. It could indeed be that the increase in consumption, which is likely to be substantial if the funds really go to liquidity-constrained households, runs into supply constraints. This concern may not be a major issue as much of the spending is likely to go toward making mortgage payments and buying food—a sector where supply constraints may not be binding. And, even if the outcome is in part some rationing and some inflation, temporary inflation may actually be helpful in decreasing real interest rates, and the distribution effects—namely that poorer households have enough to eat—are such that the outcome is still desirable. But the point remains that, so long as potential output remains much lower, boosting aggregate demand beyond what is needed for disaster relief is probably unwise.

The situation will change, however, when the infection rate is under control, restrictions are slowly relaxed, and potential output returns, if not to its old level, at least close to it. Will there be a need then to boost aggregate demand and help the economy recover faster? The answer is that I do not know. On the one hand, there will, at least initially, be some pent-up demand from consumers who could not buy cars and other durables during lockdown. On the other, the rate at which restrictions are removed, or the real possibility that restraints have to be reinstated if the infection rate starts increasing again, is likely to lead to precautionary saving by consumers and low investment by firms. Demand may go up initially and then slump again, but it is hard to be sure. This uncertainty

4 A nowcast estimate for France by Institut national de la statistique et des études économiques (INSEE) is that output in March 2020 (when France was on tight lockdown) was 35 percent below normal.

has a straightforward implication: Governments should be ready but should not commit to a specific level of fiscal expansion before we know which way demand goes.

To sum up, infection fighting and disaster relief are the highest priorities. Unless the fight against the virus turns out to be much tougher and longer than expected, they imply large but not gigantic deficits. Doing more to increase aggregate demand may be unwise in the short run and a boost may or may not be needed later. Flexibility here is of the essence.[5]

CAN COUNTRIES AFFORD IT?

Can countries afford the resulting increase in debt? Will investors start to worry and ask for spreads? And even if they do not react, will there be a "What on earth did we do?"' phase on the part of policymakers? It is a familiar phase from the last financial crisis when, after having embarked on a major fiscal expansion, European governments got worried about the large increase in debt and shifted to fiscal austerity, probably excessively slowing the recovery.

Suppose that, as a result of not only the deficits but also the decrease in output, debt-to-GDP ratios increase this time by, say, 30 percent of GDP (the computation above suggests smaller numbers). Should governments worry? And, if so, should they design smaller fiscal packages today, perhaps relying more on loans than on grants to households and firms? I believe the answer depends on whether we are looking at advanced or emerging-market and developing economies.

In advanced economies, the answer must be that, short of a defeat in the fight against the virus, debt will remain sustainable. (And if we lose that battle, debt sustainability will be the least of our problems.) Before the COVID-19 crisis I had argued that low safe interest rates implied not only that higher levels of debt were sustainable but also that the welfare cost of higher debt for future generations was small. The implication was that advanced-country governments should not hesitate to run deficits if they had urgent needs. There is no question that they have urgent needs today. And, if anything, safe interest rates are likely to be even lower in the future than they were expected to be before the virus crisis. Precautionary saving is likely to be higher, uncertainty is likely to hamper private investment; both imply a lower neutral rate for a long time to come.

An important footnote about the role of central banks is needed at this point. As I discussed in a piece on Italian debt, sovereign bond markets are exposed to multiple equilibria. I have argued above that, at the safe rate, the sovereign debt of most advanced countries is likely to be safe. But if investors start worrying and require spreads on government bonds, the burden of debt payments will increase, and debt can indeed become unsafe; the worries of investors can become self-fulfilling. In advanced economies, central banks have the means to eliminate this bad equilibrium by committing to purchase whatever amount of bonds it takes to maintain the low rate. The best example of such a policy is the commitment of the Bank of Japan to maintain a rate close to zero on long-term bonds, the so-called yield curve control. Such a commitment may not be costly:

5 Large public investment programs, as needed as they are, are not the right instrument to deal with the challenge at hand. Again, planning is good, but execution should be contingent.

With the knowledge that the central bank will intervene to maintain the rate, investors will not want to sell, and the central bank may not have to intervene at all. Other central banks may want to follow this policy.[6]

Having argued that advanced economies have substantial fiscal space, I am less sanguine about emerging-market and developing economies. Many of them were already struggling before the COVID-19 crisis and have now been hit not only by the virus but also by the fall in commodity prices (if they are exporters) and large capital outflows by investors who need liquidity at home. Some of them do not have the fiscal space to react to these combined shocks and will need help, in the form of grants to fight the virus and adjustment programs to adapt to the other shocks. Helping these economies is a major and urgent issue, not only for their own sake but also for the evolution of the pandemic and thus for the rest of the world.

THE ROLE FOR FISCAL COORDINATION

Nearly ritually, G20 communiqués refer to the need for fiscal and monetary coordination. What does it mean in this context? Both more and less than it suggests.

If coordination means providing financial help to those countries that do not have the means to fight the virus and its economic ills, then coordination is indeed essential. The war must be won on all fronts. If Africa, for example, is unable to fight the pandemic, not only will it be a human tragedy but also it implies that either Africa becomes cut off from the rest of the world, an additional economic and human tragedy, or the pandemic continues in the rest of the world.

If coordination means sharing information about the characteristics of the pandemic, about the efficiency of tests, drugs, and vaccines, sharing medical resources as the heterogeneity and the moving nature of the pandemic allow, then yes, such coordination is also essential. So is sharing of information about the efficiency of fiscal measures never tried before, about the best ways of getting funds to those who need them, about the best ways to share risk between the private and the public sector.

While not strictly about fiscal policy, coordination is also needed both to produce the high amounts of tests and vaccines needed to maintain a low infection rate while removing lockdown restrictions and to allocate the tests and vaccines to those who need them most, be they countries or people within countries. Absent such coordination, the outcome is likely to be price wars, with the tests and vaccines going to richer countries and, absent state control within each country, to richer households. Ideally, a multinational institution, mandated first to give incentives to producers and then to allocate the tests and vaccines fairly, is the solution. Agreements within groups of countries, say within the European Union, may be a more realistic goal.

6 The mandate of the European Central Bank prevents it, for the time being, from making such an unlimited commitment. But it has adopted the Pandemic Emergency Purchase Programme (PEPP), which allows it to perform a very large intervention if needed.

What about other dimensions of coordination? A typical argument for fiscal coordination is the presence of demand spillovers. When a set of countries faces a shortage of demand, each country may be reluctant to embark on a fiscal expansion because the increased spending will fall in part on the other countries and thus be "wasted" from the point of view of the embarking country. In such a case, the case for a coordinated fiscal expansion is indeed a strong one. Each country benefits from the actions of the others, and every country is better off. This was indeed the case underlying coordination of fiscal policies during the global financial crisis in 2008–10. The case is quite different today, however. The primary goals are, for the time being, infection fighting and disaster relief, and countries are clearly willing to do whatever it takes, independent of what others do. Coordination may become more relevant later in the recovery, when support of aggregate demand becomes more of a focus of policy. But, for now, coordination is inessential. The important thing is to act.

4 How the G20 can strengthen access to vital medical supplies in the fight against COVID-19

Chad P. Bown

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The COVID-19 pandemic has tested the resilience of the global trading system, and the system has catastrophically botched the test. The phrase "beggar-thy-neighbor" in trade parlance fails to capture how export curbs and hoarding of personal protective equipment (PPE) and other medical gear have disrupted international commerce and cooperation, aggravating global supply shortages, with terrible consequences for disease containment.

But because nearly everyone is to blame, not least the United States, it is a waste of time for the G20 to point fingers. The chain of economic events and an examination of the data presented here lead inescapably to the conclusion that nations acting in what they believe is in their self-interest is exacerbating the global health crisis.

With no end to this self-defeating behavior in sight, the cycle of protectionism could spread, like the infection itself. These protectionist policies not only will spread to other countries but also may spill over to impact other hospital equipment (e.g., ventilators, patient-monitoring equipment), pharmaceutical supplies, and even food. If that happens, the world will be worse off, not better. And the worsening has already begun.

Facing this grim reality, the G20 must undertake three sets of policy actions to sustain the supply of protective medical gear that doctors and nurses require to treat patients: (1) coordinate production incentives, (2) reopen and maintain openness to trade, and (3) create new monitoring and reporting mechanisms to reassure what supplies are available where and that they are being distributed fairly.

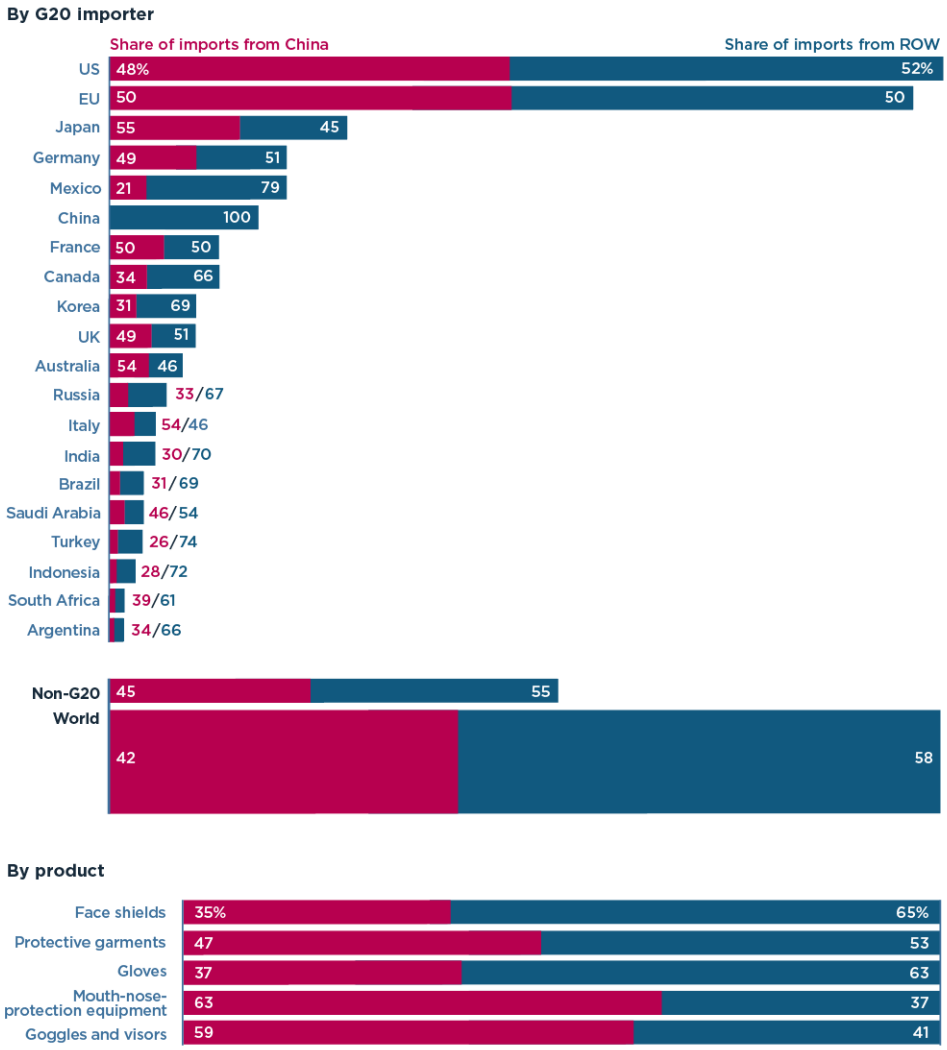
THE WORLD IS VERY RELIANT ON CHINA FOR IMPORTS OF PERSONAL PROTECTIVE EQUIPMENT

Before the COVID-19 pandemic started, China was an important global supplier of hospital gear. Take five pieces of personal protective equipment critical to the fight against the disease. China supplied 42 percent of world imports of face shields, protective garments, gloves, mouth-nose-protection equipment, as well as goggles and visors in 2018 (figure 1). Other PPE-exporting countries are also important, but China is a singularly major supplier of all the five products collectively, of each of the five products individually, and to most all of the G20 economies individually, as well as to the rest of the world.

Figure 1

Much of the world's imports of personal protective equipment come from China

Personal protective equipment (PPE) imports by product, source, and importer, 2018



PIIE

ROW = rest of world; EU = European Union; US = United States

Note: ROW data for EU are extra-EU imports only. Length of bar represents G20 member's share of world PPE imports.

Source: Constructed by the author from 6-digit Harmonized System import data, available from UN Comtrade accessed via World Integrated Trade Solution, matched to personal protective equipment definitions from Commission Implementing Regulation (EU) 2020/402 of 14 March 2020 making the exportation of certain products subject to the production of an export authorization, *Official Journal of the European Union*, L 0771, 15 March 2020.

CHINA'S EXPORTS OF PERSONAL PROTECTIVE EQUIPMENT FELL IN EARLY 2020, BUT NOT AS BADLY AS FEARED

In January and February 2020, China was the epicenter of the coronavirus outbreak, and its internal demand for PPE spiked. Thus, just as the disease was spreading to other countries, and other governments recognized their

owned heightened need for PPE, they feared being cut off from critical Chinese supplies.[1] Yet, the early data did not bear out the worst of those fears.

According to official Chinese customs data released on March 25, Chinese exports of PPE to the world declined by only 15 percent in the first two months of 2020, relative to the same period in 2019. Notable is that China's exports of these medical products declined less than the rest of its exports to the world, which fell by 17 percent during the same period.

THE EU RESTRICTED EXPORTS OF FIVE MEDICAL PRODUCTS

Nevertheless, other countries had already begun restricting their exports of PPE, out of fears of local short supplies. Most notable were export bans undertaken by a number of EU member states, including major PPE suppliers within Europe, such as Germany, France, and the Czech Republic. The bans affected (intra-EU) trade among EU member countries, including European exports to COVID-19-ravaged places like northern Italy.

On March 15, the European Commission stepped in by imposing export authorization restrictions on five separate medical products estimated at $12.1 billion in foreign (extra-EU) sales in 2019. The policy did not apply to intra-EU trade but would restrict PPE exports to countries outside the bloc. EU member states received the move as a quid pro quo: Brussels had restricted EU exports to the rest of the world in exchange for getting EU member states to relax their export bans on each other.

In a PIIE blog post published on March 19, I noted how one self-defeating feature of the Commission's initial export restrictions was their potential to disrupt pan-European supply chains, as the restrictions also applied to commerce with major European (but non-EU) economies like Switzerland and Norway. For that reason, on March 20, the Commission modified the export restrictions to no longer affect trade with Switzerland, Norway, and a handful of other countries and territories.

Nevertheless, the restrictions remained on an estimated $10.3 billion in foreign (extra-EU) sales in 2019. Of the restricted products, EU exports of face shields were the largest at $6.5 billion, followed by protective garments at $2.7 billion (figure 2). EU export restrictions also remained on exports of $746 million of mouth-nose-protective equipment, $264 million of hospital gloves, and $148 million of protective goggles and visors.

European trade officials subsequently sought to justify the export authorization program as a monitoring effort.[2] Yet, the burden of proof to make that case shifts squarely onto the European Union. Their failure to make the program transparent would breed distrust, raise concerns over unfairness and favoritism, and even lead to allegations of potential cronyism and corruption.

The only positive element of the EU policy was its temporary nature. It was set to expire in late April, 2020, six weeks after its March 15 imposition.

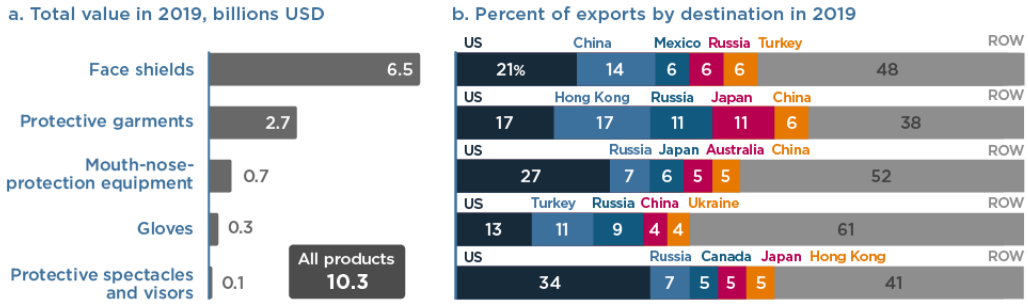
1 Though denied by the Chinese government, there were reports of a Chinese export ban on some PPE-like masks.

2 On March 30, European Commission Director-General for Trade, Sabine Weyand, tweeted: "The EU export auth[orization] measure is a short term monitoring tool to address market failures + make sure that scarce resources go to the health + social care sector - inside + outside the EU. Such measures are recognised as legitimate in today's G20 Statement."

Figure 2

EU export restrictions put a lot of medical goods trade with many countries at risk

EU medical exports subject to export controls



PIIE

EU = European Union; ROW = rest of world

Note: Extra-EU exports only. Numbers may not sum to 100 due to rounding.

Source: Constructed by the author with EU export data at the 8-digit Combined Nomenclature level from Eurostat. For product definitions, see Commission Implementing Regulation (EU) 2020/402 of 14 March 2020 making the exportation of certain products subject to the production of an export authorization, *Official Journal of the European Union*, L 077I, 15 March 2020.

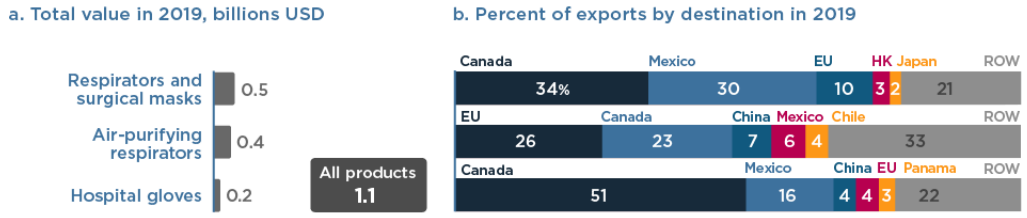
THE UNITED STATES ALSO RESTRICTED EXPORTS OF SOME PERSONAL PROTECTIVE EQUIPMENT

On April 3, President Donald Trump announced the United States would also restrict exports of certain PPE, under the Defense Production Act (DPA). The United States exported an estimated $1.1 billion of the restricted products in 2019, including disposable respirators and surgical masks ($511 million), air-purifying respirators ($415 million), and hospital gloves ($150 million) (figure 3).

Figure 3

US export restrictions put a lot of medical goods trade with many countries at risk

US medical exports subject to export controls



PIIE

EU = European Union; HK = Hong Kong; ROW = rest of world

Note: Numbers may not sum to 100 due to rounding.

Source: Constructed by the author with US export data from US Census Bureau. See Bown (2020d, Figures 1 and 2).

The Federal Emergency Management Agency (FEMA) issued the rule to limit American exports of such PPE products for 120 days starting on April 7. But there were also concerns that the United States might extend its export restrictions to other products, including ventilators, which were also in short supply. On March 27 and April 2, the Trump administration had also invoked the DPA to facilitate the domestic protection of ventilators, though neither announcement mentioned US export restrictions at the time.

SOME POOR COUNTRIES ARE PARTICULARLY VULNERABLE TO THE EU AND US RESTRICTING MEDICAL SUPPLIES

COVID-19 has fast become a global pandemic. Many developing countries lack a sophisticated medical system to treat afflicted patients. Equally worrisome is if they are cut off from foreign medical supplies.

Many of these countries are small or lack the domestic industry for the government to encourage additional local production if and when their populations suddenly become exposed to the virus.

Many poor countries rely on imports of medical supplies from the European Union and the United States and would be left vulnerable if either cut off its exports (figure 4). EU export limits could significantly affect countries in Eastern Europe, northern Africa, and sub-Saharan Africa. The American export curbs could hurt numerous countries across Latin America.

Furthermore, health care professionals require access to all of these PPE products to fight COVID-19. Being cut off from even one could significantly hamper the effectiveness of medical care.

OTHER COUNTRIES ARE RESTRICTING PPE TRADE, AND THE LAW OF THE JUNGLE IS EMERGING

The European Union and its member states, as well as the United States, were not alone in their export restrictions. G20 members including India, Brazil, Argentina, South Korea, Turkey, Indonesia, UK, and Russia also imposed (or, in the case of China, were accused of imposing) export restrictions on PPE or other COVID-19-related treatment products.[3] In many cases, countries were no longer willing to send life-saving equipment to another country.

The first three months of 2020 not only bred serious distrust between governments but also stoked tensions between governments and major private sector suppliers of PPE. Manufacturers such as 3M issued public statements that the US government was pressuring them to limit PPE exports to Canada, as well as Latin America, even prior to announcing export restrictions on April 3. In France, the government reportedly seized Swedish firm Mölnlycke's entire stock of an estimated six million masks. Canada, Brazil, and France have also reportedly made similar complaints about PPE sales being diverted away from their markets.

3 Data from Global Trade Alert database (accessed on April 4, 2020).

Figure 4

EU and US export restrictions on medical supplies leave many poor countries vulnerable

90-100% 80-89% 70-79% 60-69% 50-59% <50%

a. Percent of total imports sourced from EU, by product subject to EU export restriction

	Face shields	Mouth-nose-protection equipment	Protective spectacles and visors	Protective garments	Gloves
Cape Verde	91%	87%	89%	75%	91%
Tunisia	86	63	35	89	41
Senegal	55	61	51	33	56
Republic of the Congo	51	67	45	36	55
Albania	77	74	12	58	14
Niger	54	71	71	5	26
Angola	63	29	62	29	42
Macedonia	71	70	22	6	32
Morocco	78	54	9	34	22
Serbia	73	72	17	7	20

b. Percent of total imports sourced from US, by product subject to US export restriction

	Respirators and surgical masks	Air-purifying respirators	Hospital gloves
Jamaica	73	93	56
Palau	64	55	44
Belize	61	68	33
Dominican Republic	54	75	28
St. Lucia	67	NA	58
Guatemala	23	77	18
El Salvador	28	78	10
Costa Rica	40	55	18

PIIE

EU = European Union; NA = not available

Note: Average share of a country's total imports of each product sourced from the US or EU over 2016-2018.

Source: Constructed by the author with country-specific import data at 6-digit Harmonized System level from UN Comtrade accessed via World Integrated Trade Solution (WITS). See Bown (2020b,d).

G20 PRIORITIES: PRODUCTION, TRADE, AND TRANSPARENCY

The G20 must tackle this growing distrust and halt the emerging downward spiral of protectionism. Three complementary and coordinated sets of policy actions on production, trade, and transparency are required.

On **production**, the United States, Europe, China, and other major economies must support the manufacture of PPE.[4] Regulators need to adjust their safety requirements to achieve a new balance between equipment availability and consumer protection, in light of new risks and new sources of supply. But governments must immediately subsidize companies so that they commit to increasing production. In the immediate term, China is best prepared to expand its output. At the time of writing and unlike some other countries, China was not in a lockdown crimping its supply-side economic activity. China also begins from a sizeable starting point, and it had a head start as it began scaling up local production in February, earlier than other countries.

On **trade policy**, countries require access to global sources of finished PPE, as well as key inputs to produce it. Governments should reduce tariff and nontariff barriers to trade, on both final goods and inputs and on imports as well as exports.

But a major priority must be a coordinated reversal of all the export restrictions on PPE that G20 economies have so far imposed in 2020. Furthermore, policymakers must reject additional nativist, short-term pressure to keep supplies local. The ongoing nature of the pandemic means they will face repeated requests for such trade barriers and will constantly have to exercise restraint.

The G20 has a special responsibility to look out for the needs of the poorest and most vulnerable developing countries and not shut them off from their exports. By pushing for an open trading system and against import-substitution industrialization, the G20 has long encouraged poor countries to open up their markets to imports, facilitating a system in which they have come to rely on G20 suppliers for essential medical equipment. G20 export restrictions threaten to eliminate such countries' access to global markets for PPE just when they need it the most.

On **transparency**, the G20 must also create new monitoring initiatives. A vigilant and accurate system of oversight with improved access to information would not only reveal what governments are doing but also reassure policymakers of what their counterparts are *not* doing. Access to such information would lower tensions and suspicion. Monitoring would convince countries that their trading partners are not adopting beggar-thy-neighbor policies when they really are not, relieving pressure on countries to adopt such harmful policies themselves.

When imposing export restrictions, governments need to promptly notify the World Trade Organization (WTO), but that is clearly not enough. If countries must adopt an export authorization program, for their own monitoring purposes, they should voluntarily provide real-time information on who is requesting authorization for export, as well as which requests were accepted versus denied and for what reason.

But the increasing "wild west" behavior reportedly arising in PPE markets will not be checked with just monitoring of government policy. The G20 needs to make two additional commitments on transparency.

4 However, that does not mean imposition of "Buy Local" requirements. Such policies are harmful as they limit access to imported supplies, which may be the only ones available at any particular moment in time.

On PPE data, the G20 must quickly ramp up a reporting system for each member's production capacity, output, domestic demand, stockpiles, exports, and imports. Such a system already exists for agriculture to help manage global food supplies and preemptively address famine outbreaks in the face of drought or other natural disasters.[5] The public health community demands that accurate and real-time information be available on PPE supplies in the face of the ongoing pandemic.

Too little PPE data are currently publicly available on domestic supply, stockpiles, and consumption. And while the entire G20 must take on the commitment to collect, provide, and update such information, China is the most important place to start. The world has become so reliant on China for PPE imports that now is the time for it to lead by allowing the world real-time insight into its production capacity, output, domestic demand, and global export sales of PPE.

On commercial transactions of PPE, more transparency is needed on the prices and quantities being realized in markets, as well as who the buyers are. Given potentially legitimate concerns over price gouging, hoarding, and other market failures, the world requires reassurance about whether PPE markets can function. Publicizing information on PPE transactions may also help discourage egregious abuses of market power in the first place.

This level of transparency is admittedly far-reaching, and private firms may hesitate due to concerns over business confidentiality. In these extraordinary times, companies should consider providing this information voluntarily; failure to do so could increase political pressure to nationalize the industry. And failure to cooperate could leave everyone worse off if the pandemic continues unabated.

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5 See, for example, US Department of Agriculture, World Agricultural Supply and Demand Estimates, updated monthly, as well as Food and Agriculture Organization of the United Nations, World Food Situation.

5 Ensuring global food security in the time of COVID-19

Cullen S. Hendrix

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The self-defeating drive by countries to impose export controls on medical gear in the wake of the COVID-19 pandemic has spread like an infection to foodstuffs. Major cereal exporters like Russia, Kazakhstan, and Vietnam are implementing or flirting with export restrictions that threaten to roil global food markets and—as we learned during the 2007–08 and 2010–11 food price spikes—augur poorly for global hunger and political stability.

G20 member states, many of whom are major exporters of staple cereals, must avoid protectionist trade measures and act proactively, through commitments to intervene in forward markets, to ensure food commodity price bubbles do not emerge or are popped as soon as possible.

The COVID-19 pandemic is spreading amid troubling increases in world hunger. The slow but consistent progress in eradicating undernourishment has been reversed in the past five years.[1] The current level of 821 million undernourished worldwide, a staggering 10.8 percent of global population, is the highest since 2011 (figure 1). Not coincidentally, 2011 was the last time global food prices spiked, driven in part by export bans implemented by G20 members, particularly Russia and India. That price spike considerably slowed the decline in the number of undernourished worldwide. And like an earlier spike in 2007–08 sparked demonstrations and riots in 48 countries, the 2010–11 spike fueled grievances that motivated the various Arab Spring uprisings (Hendrix and Brinkman 2013).

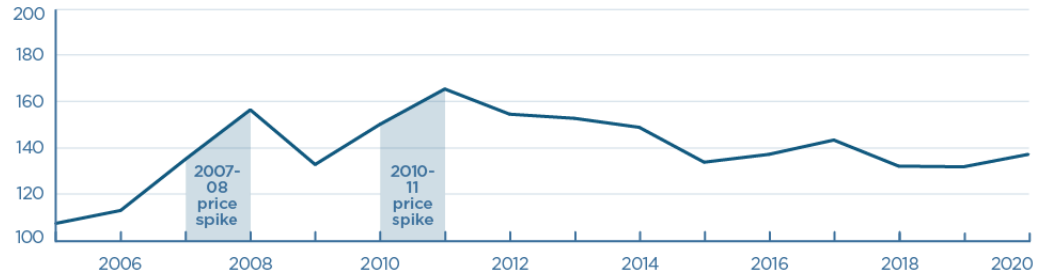
The increase in hunger that accompanies global food price spikes is bad for human health *eo ipso*. But it would also make attempts to contain the spread of COVID-19 and effectively treat the disease much more difficult. COVID-19 is particularly unsparing to those with compromised immune systems, and nutrition is obviously key to human health. Several of the most common underlying health conditions in COVID-19 deaths are cardiovascular disease and diabetes, which are both linked to obesity. The effects for undernourished populations are less well known, in part because to date the pandemic has primarily been studied in developed and middle-income countries, where both chronic and acute undernourishment are comparatively (and thankfully) rare. But undernourishment is clearly a cause of immunodeficiency more generally, so a spike in hunger would likely make affected populations much more susceptible to infection and COVID-related mortality (Bourke, Berkley, and Prendergast 2016).

1 The Food and Agriculture Organization (FAO) defines undernourishment as "a person [who] is not able to acquire enough food to meet the daily minimum dietary energy requirements, over a period of one year."

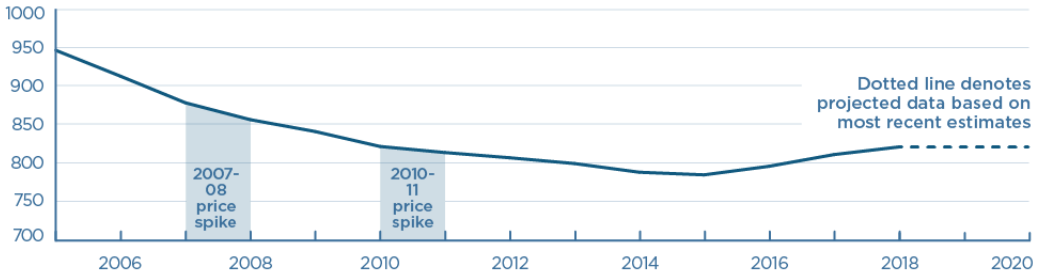
Figure 1

Global food price spikes reversed progress on eradicating world hunger

a. FAO food price index, 2005–2020



b. Total undernourished worldwide, millions of people



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Sources: Food and Agriculture Organization of the United Nations (FAO), The State of Food Insecurity in the World, 2019, www.wfp.org/publications/2019-state-food-security-and-nutrition-world-sofi-safeguarding-against-economic (accessed on April 3, 2020), and World Food Situation, www.fao.org/worldfoodsituation/foodpricesindex/en (accessed on April 1, 2020).

EXPORT BANS ARE THE WRONG TOOLS TO ACHIEVE FOOD SECURITY

In uncertain times, staple cereals like wheat, maize, and rice[2] are some of the most hoarded types of food: What they may lack in complete nutrition they more than make up for in storability and ease of bulk purchase. They are also widely traded. Global markets for cereals, particularly maize and wheat but increasingly rice, are important for meeting the dietary needs of billions of people worldwide, especially in Asia, the Middle East, and Africa (Wood et al. 2018). And the G20 is responsible for meeting a huge share of these needs. Collectively, its members accounted for 81 percent of global cereal exports in 2017 and nine of the top ten[3] largest exporters in percentage terms (figure 2). Several major G20-member exporters, especially Australia, Argentina, and Canada, export close to or more than half their crop. For some other major G20-member exporters, the exportable surplus is a much smaller share of total production—in India's case, roughly 5 percent.

2 Plus more minor and thinly traded "pseudo cereals" like buckwheat and quinoa.

3 The other being Ukraine, which is included in the "Rest of world" category in figure 2.

Figure 2

G20 countries dominate global trade in staple cereals

a. Share of global cereal exports by top 10 G20 exporting nations, 2017

b. Share of global cereal exports by the rest of the world, 2017

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Sources: Food and Agriculture Organization of the United Nations, FAOSTAT Export Data (accessed on April 1, 2020), and author's calculations.

These are certainly uncertain times. The COVID-19 pandemic is causing runs on local food markets worldwide, and business and political leaders are urging calm. But several major food-exporting countries are taking matters farther. Russia, the world's second largest exporter of cereals (figure 2), was the first mover—and so far the only G20 member—to implement a ban on, in its case, the export of processed grains (Laborde 2020). Soon after, major non-G20 exporters like Kazakhstan, Thailand, and Cambodia followed suit. Vietnam, the world's third largest exporter of rice, did not impose an export ban but put a moratorium on new export contracts as it assesses domestic stocks. On March 30, 2020, Cambodia joined the list of countries announcing limits to exports of certain agricultural products, which took effect on April 5. This is a particularly painful decision for a country that has been considerably successful in building a market share in rice.

The logic behind this move to protectionism is simple: As consumers hoard products, demand and thus global prices go up. Fearing shortages due to hoarding, food-exporting countries resort to restricting their exports in order to ensure adequate domestic supplies and shield their consumers from price increases. To some extent, these policies are successful. But they impose a variety of large losses, specifically on domestic producers, who neither get accurate demand signals nor benefit from higher prices in global markets. In the short run, such policies depress farmers' incomes and export revenues. Over the longer term, they distort incentives for farmers to invest in expanding productive capacity, which is necessary to increase supply and bring down food prices.

Moreover, these restrictions are a crude means of addressing food insecurity. Unlike other mechanisms for preventing food shortages and addressing acute needs, export restrictions operate as a general consumer subsidy, with the welfare benefits accruing disproportionately to comparatively well-off households, rather than just the poor and food-insecure.

Lastly, export restrictions are classic beggar-thy-neighbor policies that throw costs of adjustment back onto international markets and exacerbate the very dynamics they were intended to prevent. Hoarding—at the individual and country levels—is rational if one expects the other to do so. The announced bans signal to markets the intention to hoard, encouraging buyers to panic buy and drive up prices even further: Export restrictions were found to have added as much as 45 percent to world rice prices and 30 percent to wheat prices during the 2007–08 crisis (Martin and Anderson 2011).

After the food price spikes of 2007–08 and 2010–11, which plunged millions into hunger and fueled political instability across Africa, Asia, and the Middle East, the G20 committed to relatively minor reforms including not taxing or restricting exports via World Food Programme (WFP) food purchases for humanitarian purposes and attempting to improve transparency in food commodity markets (G20-G8 France 2011). These were soft commitments at the time, but the current situation calls for much more aggressive, proactive steps to forestall a crisis in the global food system.

HOW THE G20 CAN HELP ENSURE GLOBAL FOOD SECURITY

A coordinated G20 response would consist of three basic elements:

- The G20 should **disavow export restrictions**, with a potential exception of India, the lone G20-member major exporter with a large (in both absolute and percentage terms) undernourished population. If this measure proves infeasible, the G20 could move to adopt some best-practice provisions for consultation and policy coordination as embodied in Article 26.2 of the Trans-Pacific Partnership (TPP) (Hendrix and Kotschwar 2016). While recognizing the rights of governments to enact export restrictions in order to prevent critical shortages, the TPP agreement requires TPP-member exporting countries to notify and consult with TPP-member importing countries beforehand if export bans remain in place for more than 12 months. Prior notification should smooth market responses—thus providing positive spillovers for non-TPP countries in the form of less volatile markets—and allow TPP-importing countries time to seek alternative sources of supply. These consultations could simply be extended more widely with importing countries via the World Trade Organization. This would fall short of the "first best option" of doing away completely with export bans, as already called for by a G20-commissioned report on food price volatility in 2011 (FAO et al. 2011), but it would be a good next best step.
- The G20 should coordinate around a set of **best practices for ensuring adequate domestic supplies** through (1) limiting purchases by domestic consumers at retail points of sale, such as supermarkets and grocery stores, (2) reducing taxes on food grains, (3) where possible, tapping into domestic emergency stocks to prevent speculative price bubbles from forming, and (4) using more targeted transfers—like food stamp programs—to address the needs of the most vulnerable populations. These best practices are well known and have been discussed within the G8 and G20 frameworks (see World Bank 2008, G20-G8 France 2011).

- The G20 should commit publicly to **intervene should prices in global markets begin rising rapidly**. These interventions could take two principal forms. First, the release of physical stocks—and in some cases, just the announcement of the intention to release—can help calm markets and prevent panic buying. For example, as rice prices spiraled in 2008, G20 member Japan announced it might release stockpiled purchases of US-exported rice. The announcement alone helped bring down prices 14 percent in a single week. Second, G20 member states should commit to implementing virtual grain reserves (von Braun and Terero 2008). Just as central banks often intervene in currency markets to manage exchange rates, G20 member states could commit to intervening in futures markets via progressive short-selling until prices stabilize. While G20 member states have committed to avoiding currency manipulation, this type of coordinated market intervention could be extremely helpful in forestalling price bubbles.

The COVID-19 pandemic threatens global food security. The G20 should take aggressive steps to safeguard against one public health crisis leading to another.

6 The G20 should expand trade to help developing countries overcome COVID-19

Anabel González

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For developing countries, especially the poorest among them, trade—both imports and exports—is a powerful, cost-effective tool to mitigate the potentially devastating effects of COVID-19. G20 countries should, therefore, quickly implement trade policies that can protect lives across the world by improving access to affordable medical supplies. Policies that put this access at risk should be restrained. Global cooperation is critical to meeting this challenge.

Trade can also play a key role in the recovery. As COVID-19 wreaks havoc across industries worldwide, G20 countries need to keep supply chains functioning. They should also begin preparing the groundwork for a revitalized global trade framework to help rebuild the world economy.

ADOPT TRADE MEASURES TO SUPPORT HEALTH SYSTEMS AND PROTECT LIVES

Lower tariffs on pharmaceuticals, medical devices, and other medical supplies

Tariff rates on pharmaceuticals and medical equipment are relatively low, but disinfectants and other personal protective products needed to fight the pandemic still face high tariffs and nontariff barriers in many countries. Soap, the first line of protection against COVID-19, is subject to a global average tariff of 17 percent, with 72 countries applying import duties in excess of 15 percent. Tariffs on health and hygiene products are a regressive form of taxation that targets the sick.

Eliminating such protectionist measures could also lower the cost of inputs like active ingredients and other chemical products, encouraging domestic investment and production. A starting point is the indicative list of essential COVID-19 medical supplies published by the World Customs Organization. A number of countries have already announced tariff reductions in certain categories of critical medical supplies, albeit temporarily. US tariffs on imports from China risk shortages of ventilators and other medical products.

Facilitate trade in health-related products and materials

Cross-border movement of health-related goods and imported inputs to manufacture these products can be disrupted by lengthy and inefficient customs and border procedures, as well as by logistical obstacles, preventing timely access to critical products. Vaccines, for example, require careful and rapid handling from

port or factory to their destination. China and the European Union have established "green lanes" to expedite inspection and release of goods to avoid such delays, which other countries could also replicate. Building on a five-country initiative led by Singapore and New Zealand, G20 members should also keep air and sea freight lines open. To support trade, governments should also keep trade finance flowing and maintain liquidity, as called upon by the private sector.

Expand access to technical standards and expedite conformity assessment procedures

Medical gear is typically subject to stringent standards on design, manufacturing, and market placement to protect consumer safety and public health. These rules, however, may unintentionally limit production and access. To overcome this problem, the European Union made freely available its basic standards for certain personal protective equipment and medical devices, lifting the requirement that firms purchase and use European standards according to intellectual property rules. This step will allow factories to convert their production lines quickly. The European Commission has recommended speedier conformity assessment procedures and market surveillance of these products. Other countries, with limited conformity assessment capabilities, should consider automatic registration of supplies that have met standards in advanced economies.

Allow health professionals to move across borders

In February 2020, two nurses in Wuhan pleaded for health workers from around the world to come to China. China later sent 300 intensive care doctors to Italy. In the United States, New Jersey has authorized the temporary practice of foreign doctors licensed and in good standing in another country. More such movement of physicians, nurses, and health professionals is needed, especially in poorer countries. Flexible regulatory measures, special visas, and work permits can help. A common international framework to support the temporary movement of health professionals across countries, as called for by India, would facilitate the response to the crisis.

Share knowledge via e-health and other digital interactions

In the United States, authorities have moved to facilitate telemedicine to screen high-risk patients, communicate and track COVID-19, and manage health care systems. The global health community is turning to digital technologies, data, and cross-border e-health interactions to share evidence and experience. Common rules to support cross-border digital services trade, in particular to provide a trusted environment for digital exchanges in the health sector, could support rapid knowledge sharing and case management.

Ensure that intellectual property regimes do not hinder access to new technologies and drugs

Companies across the world are racing to develop diagnostic methods, vaccines, and antivirals for the prevention and treatment of COVID-19, while governments are working to expedite approvals. New technologies—such as 3D-printing respirator parts developed by Italian engineers—can address shortages. But

protection under intellectual property regimes must be balanced against the global significance of the pandemic. New issues will need to be sorted out. Collective action could bring greater certainty to safeguard access by all.

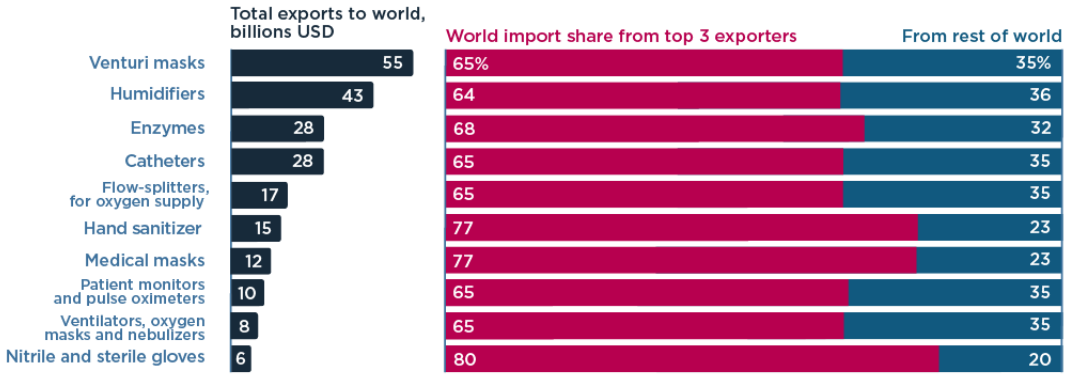
AVOID TRADE MEASURES THAT PUT LIVES AND COUNTRIES AT RISK

As of April 4, 2020, 69 governments, including India and the European Union, had banned or limited exports of face masks, personal protective equipment, medicines, and other medical goods. These practices hurt not only importers but also exporters as they raise prices, discourage investment, and provoke retaliation. Some countries have also restricted exports of certain foodstuffs. In the past, similar actions have aggravated food insecurity and increased prices.

The world's poorest countries are extremely vulnerable to such protectionist policies. Ten exporting countries account for almost three-quarters of world exports of medical goods and nearly two-thirds of world exports of protective gear. The top three countries exporting medical products critical to fight the pandemic supply 65 to 80 percent of total world imports of those products (see figure). Any restrictions on exports risk leaving most of the world without access to vital supplies, with catastrophic consequences.

The world relies on top 3 exporters for critical COVID-19 medical gear

Total exports to world and shares imported from top 3 exporters of COVID-19 medical products



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Note: Import shares are the average of shares imported from the top 3 exporters in 2017, 2018, and 2019 (if available). Total exports are averages of exports in 2017, 2018, and 2019 (if available).

Source: Author's calculations based on Alvaro Espitia, Nadia Rocha, and Michele Ruta, Database on COVID-19 trade flows and policies, 2020, World Bank.

Many companies are utilizing global supply chains to increase production of some medical products, but governments could provide subsidies or encourage compacts among companies along the supply route to stimulate production. International organizations like the World Bank can also facilitate access to supplies for poor countries. Governments should refrain from adopting "Buy National" policies as they are counterproductive and prevent companies from accessing vast foreign supplies.

TAKE COLLECTIVE TRADE ACTION TO FIGHT COVID-19, KEEP SUPPLY CHAINS MOVING, AND LAY THE FOUNDATION FOR RECOVERY

A collective G20 response, with regular follow-up mechanisms, is critical to avoid politically appealing but self-defeating trade policies. If global cooperation is impossible, willing countries should step up. The World Trade Organization (WTO), hobbled as it has been lately, provides a forum for countries to agree to refrain from export bans. It can also facilitate an agreement to eliminate tariffs and nontariff barriers on health-related products, expanding on the scope and membership of the WTO initiative on trade in pharmaceuticals. The WTO could also encourage progress on the other steps mentioned above, including a common framework on cross-border movement of health professionals and a collective understanding that the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights does not limit governments' actions to safeguard affordable access for new vaccines and drugs.

The post-COVID-19 world economy will require more, not less, global trade cooperation. Global trade rules will be needed to foster investment and trade. Reforming the WTO has become more pressing than ever to help update rules in line with the dramatic changes brought about by the COVID-19 pandemic. The G20 countries have allowed international collaboration on trade to unravel. They now have a chance to seize on the crisis to sow the seeds for renewed global trade cooperation.

7 The G20 should do more to harness the IMF and World Bank

Simeon Djankov and Anne-Laure Kiechel

The World Bank and the International Monetary Fund (IMF) have performed impressively in confronting a global pandemic undreamed of when these two institutions were established at Bretton Woods 75 years ago. But the G20 leaders now have an obligation to harness them still further to deal with the health and economic fallout of the COVID-19 crisis.

The challenge is staggering. The IMF puts a conservative estimate on the financing needs of emerging-market economies at $2.5 trillion. This amount is in addition to an estimated $5.6 trillion of emerging-market economies' syndicated loans and bonds coming due in 2020. Already more than 80 countries have sought assistance from the IMF, a significantly higher number than in previous crises.

Crisis management in emerging markets is more difficult than in advanced economies. Existing health infrastructure is usually deficient, resources for COVID-19 testing and treatment are scarce, the large share of the informal economy means a higher cost of the lockdown on households, and food production and distribution are more easily disrupted because of border closures. The support of the IMF and the World Bank is sorely needed.

There is also another difficulty in emerging markets. In advanced economies, fiscal expansion may not be an issue as near-zero interest rates imply that higher levels of debt are sustainable now and that the cost of higher debt for future generations is small. If anything, interest rates are likely to be lower in the future than they were expected to be before the COVID-19 crisis. This is not the case for most emerging markets, where debt sustainability concerns were present before the crisis. Several—Somalia, Sudan, and Zimbabwe—were already in arrears to the IMF and the World Bank and were denied further funding.

The two Bretton Woods institutions have demonstrated the right mindset and are providing liquidity at a brisk pace. The IMF has shown a "whatever it takes" resolve with an initial $50 billion allocation, and the World Bank has made available $14 billion in immediate support. The G20 should now

- encourage the two institutions to set priorities for financing liquidity constraints throughout all developing countries, ensuring that their resources do not get siphoned off to existing clients,
- help develop their institutional capacity to meet the flood of borrowing requests to avoid a systemic risk to the global financial system, and
- encourage an advisory program for countries facing genuine insolvency as opposed to liquidity constraints.

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WHAT THE IMF AND THE WORLD BANK HAVE DONE

The IMF's Rapid-disbursing Emergency Financing Facilities address COVID-19 directly. The IMF has used this instrument to extend liquidity assistance (an estimated $50 billion) to member countries without needing to have a full-fledged program in place for the Rapid Credit Facility ($10 billion) or Rapid Financing Instrument ($40 billion). Disbursements have begun, with the Kyrgyz Republic the first country to benefit.

The IMF can provide grants to countries with outstanding obligations to address disasters through the Catastrophe Containment and Relief Trust. This Trust was created in the aftermath of Haiti's earthquake in 2010 and used to support Guinea, Liberia, and Sierra Leone during the 2014 Ebola outbreak. But with only $200 million ready for use, its funding is insufficient to address a pandemic such as COVID-19.

Total IMF resources currently available are estimated at $787 billion. In normal times, the IMF uses its quota-based resources to finance lending. A portion of those resources has already been committed, however, and some quota resources are not available because the financial conditions of several members are not strong enough to allow lending and for debt to be sustainable. If quota resources fall short, the IMF can activate the New Arrangements to Borrow, through which some member countries and institutions lend additional resources to the IMF, up to $226 billion. As a third line of defense, the IMF has access to bilateral borrowing agreements up to $424 billion.

To address sector-specific challenges, the World Bank Group has prepared a package to strengthen the COVID-19 response in developing countries. The International Bank for Reconstruction and Development and the International Development Association are making an initial $6 billion available for the health response. The World Bank has approved 25 projects worth $1.9 billion and redeployed $1.7 billion from existing projects. For example, in countries ranging from Afghanistan and Haiti to India, Mongolia, and Tajikistan, the financing is used to recruit more medical staff and ensure that they are equipped to deliver emergency care. In Romania, a redeployed loan from a Catastrophe Deferred Drawdown Option facility finances crisis-related equipment purchases.

The World Bank's crisis response goes beyond health care. In Pakistan, the Bank finances remote learning for 50 million children whose schools had to close. As the crisis enters its third month, more operations focusing on education, social insurance, and support for the private sector are envisioned. On the latter, the International Finance Corporation, the World Bank's private sector arm, is extending $8 billion in trade finance and working capital to its clients.

THE BIG ISSUES ARE OPERATIONAL

Two major issues require the G20's attention. First, there needs to be a priority algorithm for extending IMF and World Bank liquidity to developing economies, so that resources do not get rapidly appropriated by existing clients or on a first-come-first-served basis. This tendency has been evident during previous crises, when redeployment of existing projects meant money was directed to larger countries with more fiscal space. Prioritization is critical to target the most-needy emerging-market economies.

Second, a system is needed for the IMF and the World Bank to process simultaneously multiple borrowing requests. One idea is to process countries with similar characteristics in groups, akin to a no-objection approval of projects, with a view toward expediency. This approach can be taken with emerging-market economies whose exposures do not represent a systemic risk to the global financial system.

MUCH MORE HAS TO BE DONE

First, IMF and World Bank operations should emphasize immediate prevention efforts, in particular travel restrictions (for example, banning international travel) and strict quarantines of those recently returned from abroad. Knowledge is still limited, but policymakers in emerging-market economies may have some reasons for optimism: Low connectivity, especially in Africa, may slow the import and spread of the virus; warm weather may help (although this is highly speculative); and large young populations, which appear to be less susceptible to the novel coronavirus, may help to reduce the overall health consequences. Unfortunately, once the virus is introduced, lockdowns and social distancing seem nearly impossible in many developing countries.

Second, the Bretton Woods institutions can provide resources for people hit by the crisis. Households that lose their income directly or indirectly because of containment measures or other impacts need government assistance. Cash transfers are needed for the self-employed and those without jobs or in the informal sector. The latter category accounts for the majority of people in emerging-market economies—and limits the applicability of containment measures. More emphasis should be given to creating or strengthening social safety nets, especially in low-income countries. The increase in poverty in sub-Saharan Africa and other parts of the developing world implied by a global recession may ultimately take more lives than the virus itself.

Crises increase income inequality. The increase will be even more acute with COVID-19, as workers in both the formal and informal sectors stay under lockdown at home. Recovery from the crisis will require progressive income policies, through tax reform and expanded access to social security. The potential costs of wider inclusion are substantial but are outweighed by even larger benefits. Achieving a more equal income distribution is one of the twin goals of the World Bank, which has a wealth of experience of which programs work.

Third, projects can be developed to prevent excessive economic disruption. Policies should safeguard workers and employers, producers and consumers, lenders and borrowers, so that business can resume in earnest when the COVID-19 emergency abates. Company closures would cause loss of organizational know-how and termination of productive long-term projects. Disruptions in the financial sector would amplify economic distress. Governments need to provide exceptional support to private firms, including wage subsidies. Large programs of loans and guarantees have already been put in place in most countries, with the risks borne largely by taxpayers.

As with the World Bank redeploying resources from existing projects, the IMF can frontload its programs and expand them to cover these new tasks. But frontloading will make it more difficult for the Fund to finance initially planned development projects to support growth. It also risks exhausting IMF resources by giving money to existing clients or first-come-first-served borrowers.

Some steps require coordinated action between the World Bank and IMF. Businesses that experience liquidity problems should be kept as going concerns. Yet a number of countries have insolvency laws that trigger foreclosure or receivership procedures after just weeks of illiquidity. Countries that do not have reorganization procedures in their bankruptcy law need to temporarily freeze the possibility of distressed businesses closing down. The World Bank and IMF have significant experience in advising governments on insolvency reform. The G20 can require additional efforts, akin to the financial sector assessment programs that originated during the East Asian financial crisis in the late 1990s, while supporting these with additional resources.

The virus crisis has exacerbated existing vulnerabilities in some industries, which will slow their recovery rates. As supply chains around the world are severely disrupted, trade in intermediate goods may take a different shape, which will depend largely on the trade restrictions that various countries have imposed during the crisis. Reconstituting global integration is of first-order importance. The World Bank and the IMF are flag bearers in this area.

DEBT SUSTAINABILITY DISCUSSIONS MUST WAIT

For many countries, the IMF needs time to make a better-informed determination regarding the sustainability of their indebtedness. This determination will be informed by investigation into contingent liabilities (e.g., by state-owned entities or provinces), which are likely to materialize in a time of crisis and could represent substantial additional debt.

For others, the IMF has already made a judgment that, irrespective of the depth and duration of the crisis, their debt is unsustainable. For these countries, there is an opportunity to engage in discussions of meaningful restructuring to restore sustainability. Rules and thresholds on sustainability are likely to require revision (or at a minimum, temporary relaxation for some). This exercise requires coordination among diverse private creditors as well as between official and private, bilateral and multilateral institutions, to give borrowing governments adequate relief in the aggregate. These creditors have different priorities and constraints.

Should official creditors agree to a moratorium of debt payments during the crisis months, the next step involves restructuring of payments to private creditors. Over $5.6 trillion of debt from emerging markets comes due in 2020—i.e., within a period when economies will not have fully recovered. As finance ministers are already overwhelmed with other urgent matters linked to the crisis, a disorderly handling of debt restructuring is likely to result into a lose-lose situation for both borrowers and investors. Borrowers may be pushed into default, which will—even if capital markets have short memories—affect their future access to funding. Lenders may be tempted by litigation.

These outcomes are of particular concern as private bondholder identification (knowing who actually retains a country's debt) is not precise: Some, if not most, countries would not know today with whom to negotiate. Disorderly handling of debt negotiations is likely to increase inequalities between countries, as developing countries—hampered by lack of information and resources—may be slower to prepare for such negotiations.

Orderly handling of private debt discussions, in a spirit similar to what has been proposed by the public sector, should be favored. This process takes time, which is why debt sustainability discussions must wait for the health crisis to be over.

CONCLUSION

The Bretton Woods institutions have withstood the initial pressure of assisting emerging-market economies in dealing with the health and economic fallout of the COVID-19 crisis. Huge challenges remain. To effectively use the IMF and the World Bank to deal with these challenges the G20 should

- require a priority algorithm for financing liquidity constraints in developing countries, so that IMF/World Bank resources are not rapidly appropriated by existing clients or on a first-come-first-served basis,
- assist the IMF and World Bank in developing instruments to process simultaneously multiple borrowing requests from emerging-market economies whose exposures do not represent a systemic risk to the global financial system, and
- lend its support for a World Bank/IMF advisory program on insolvency reform, akin to the financial sector assessment programs that the two institutions run jointly.

Important questions remain. Expanded World Bank and IMF resources will be stretched thin in the first months of the crisis. How will they be replenished? And what will happen if the virus returns before either an effective vaccine or cure is found? We have just weeks to answer these questions.

8 Debt standstills can help vulnerable governments manage the COVID-19 crisis

Anna Gelpern, Sean Hagan, and Adnan Mazarei

COVID-19 is devastating low- and middle-income countries, adding to their debt burdens and threatening a far-reaching sovereign debt crisis. To help manage debt distress for the countries most exposed, the G20 should call for a temporary standstill on sovereign debt payments to official and private creditors. A standstill entails an agreement among creditors and the debtor for a temporary pause on debt payments. In some cases, contracts allow a majority of creditors to agree to a standstill over the objections of the minority. In addition, the G-20 should call for the establishment of a central coordination mechanism to assist in both implementing a standstill and developing a longer-term sovereign debt strategy to meet the pandemic challenge. It should make use of recent contractual and institutional reforms to maximize creditor participation in this effort.

Even before the COVID-19 pandemic, the International Monetary Fund (IMF) had projected that the gross public debt (both domestic and external) of low- and middle-income countries would on average reach a high of 55.7 percent of their GDP in 2020 (see figure). The pandemic has compounded the problem: Countries face staggering new healthcare costs; collapsing tax, nontax, and export revenues from the global recession; and capital flight and frozen debt markets, which leave governments unable to refinance maturing debt. The "sudden stop" in low- and middle-income countries is due in part to developments in high-income economies, where financing needs have skyrocketed overnight against the background of extreme risk aversion and a flight to safety among investors.

The debt problem is unprecedented in its magnitude. The Institute of International Finance estimated that in March 2020 alone, $83 billion had exited the emerging markets. On March 27, the IMF announced that the overall financial needs of emerging markets and developing countries in the face of the pandemic are about $2.5 trillion. Managing Director Kristalina Georgieva stressed that this estimate may be on the lower end, and that countries' own reserves and domestic resources are clearly insufficient for the task.

It is hardly surprising that the IMF has already received requests for financial support from more than 80 of its 189 members, some already experiencing debt distress. In past crises, the IMF has had to allay concerns about its financial capacity. New IMF borrowing arrangements recently approved by Congress mitigate such concerns for the moment, although it is too early to tell whether they are enough to meet the fast-growing needs. The most immediate question

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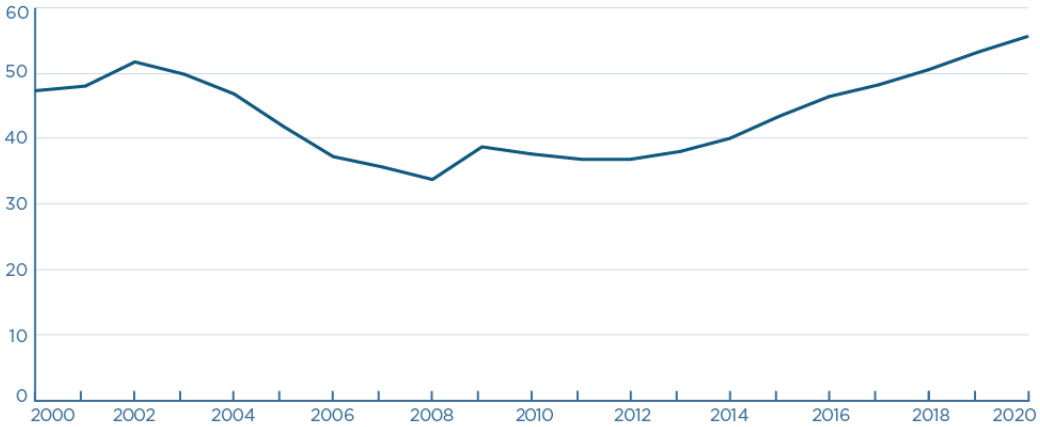
High levels of debt in emerging-market and developing countries will complicate efforts to fight COVID-19

Gross government debt in emerging-market and developing economies, percent of GDP



PIIE *Source:* International Monetary Fund.

is how, as a policy matter, the Fund should respond to these requests, given the likely magnitude of the overall problem and continuing uncertainty about the precise effects of COVID-19 on individual countries.

JUSTIFICATION FOR A TEMPORARY DEBT STANDSTILL

A temporary standstill endorsed by the G20 would enable the Fund to finance urgent crisis response policies for its most vulnerable members pending country-specific debt sustainability assessments. Without a standstill, IMF resources could simply pay off other creditors.

Under the Fund's existing policy framework, both the design of the program and the level of Fund financial support must consider whether a member's external debt is sustainable (i.e., whether any feasible set of economic and political policies can stop it from continuously rising). If the debt is judged sustainable, the Fund can support a program that enables the government to keep paying its external debt in full and on time, in the expectation that doing so would revive market confidence and catalyze funding from other sources.[1] However, if the IMF determines that the member's debt is clearly unsustainable, it would require the government to initiate a debt restructuring of sufficient depth to restore sustainability as a condition of its program.

Making judgments about sustainability is difficult even under the best of circumstances, in "normal" times. They entail long-term projections of a number of variables, including the country's economic trends in the context of expectations of the path of the global economy, public and private debt

1 When a member asks for financing above normal limits, the IMF must judge its debt to be "sustainable with high probability." If the debt is judged sustainable but not with high probability, the program goes forward only with financing from non-IMF sources that improves sustainability and protects IMF resources.

dynamics in the country, its budget, and its balance of payments years hence. These assessments must take into account the political capacity of the government to deliver necessary economic reforms to ensure sustainability, a capacity that varies with each country's domestic and external political circumstances.

COVID-19 has compounded the uncertainties around sustainability assessments. Additional factors include:

- the path of the pandemic, including within the territory of the member experiencing debt distress;
- the depth and length of the slump in global economic growth (especially the interplay of supply and demand shocks);
- the projected path of inflation, interest rates, commodity prices (especially for oil), primary fiscal balances, and exchange rates;
- the timing and extent of a return to some degree of normalcy in global financial markets, taking into account the level of financial distress in the creditor community;
- the ability and willingness of official bilateral donors and lenders to support developing countries financially; and
- the extent that resources could be mobilized domestically by the requesting country through taxation or borrowing to directly fight COVID-19 and meet other obligations; this will greatly depend on each country's social and political conditions, which will be very fluid during the humanitarian crisis.

The IMF's lending decisions now must take into account these extraordinary levels of uncertainty. A country whose debt looked clearly sustainable only several months ago may—or may not—move into unsustainable territory. The Fund faces a dilemma. On the one hand, making program approval conditional on a deep debt restructuring that involves significant reduction in the net present value of claims can generate considerable costs for the member, its creditors, and—through contagion—other countries. The mere expectation of debt restructuring can cause creditors to pull back. If the shock is short-lived, these costs would seem unnecessary in retrospect. On the other hand, treating the pandemic as a temporary liquidity problem poses significant risks both to the member and to the IMF: If other creditors' claims are paid off and sustainability continues to deteriorate, by the time the government has to restructure, the pool of debt that could absorb necessary relief would shrink while the country's senior debt to the IMF would have grown. Sustainability would require deeper debt reduction and further imperil the country's future access to private markets.

In the current environment, there is a need for both urgency and patience: Urgency with respect to IMF support for effective policy adjustment, patience to allow for a more fully informed assessment as to whether the magnitude and duration of the current shock might render particular countries' debts unsustainable. Programs that support a standstill on debt payments pending clarity on the longer-term impact of the crisis would satisfy both imperatives, and would be consistent with the logic of the IMF's exceptional access policy.

The heads of the World Bank and the IMF took a first step toward putting such a standstill in place when they called for official creditors to suspend debt repayments from the very poor countries eligible for support from the World Bank Group's International Development Association. Since then, it has become apparent that COVID-19 will deliver a debt shock for a broader set of countries, including emerging markets unable to refinance their debt in the frozen credit markets. If official creditors agree to pause debt payments from this broader set of countries, the second step requires a standstill on payments to private creditors. Government creditors are unlikely to exercise forbearance if borrowers and their private creditors could abuse their taxpayers' generosity and pay off private creditors in full during this challenging time. Intercreditor equity concerns loom large in a systemic crisis of this magnitude.

While a standstill could apply to all countries experiencing debt distress, its implications would vary. Our focus is on countries whose debt appeared sustainable before the pandemic but is now more uncertain. For this subset, a standstill would give the IMF time to make a better-informed sustainability determination, while allowing for urgently needed IMF support. Where the IMF has already made a judgment that—irrespective of the depth and duration of the crisis—a country's debt is unsustainable, governments could benefit from a standstill, but should in any event promptly engage in restructuring discussions to restore sustainability. Country-specific standstills could be reached without an IMF-supported program; however, external creditors and the country's citizens would need an alternative means of ensuring that forbearance is not financing bad policies or preferential payments.

OPERATIONALIZING A STANDSTILL

Implementing a standstill would require coordination among diverse private creditors as well as between official and private, bilateral and multilateral institutions, to give borrowing governments adequate relief in the aggregate and reassure creditors regarding intercreditor equity. These creditors have very different priorities and constraints. They hold a variety of legal claims on the borrowing governments, including some backed by valuable collateral. For corporate borrowers, the bankruptcy process goes a long way to ensure intercreditor equity and coordination. Sovereign borrowers, however, have no such option. The next section discusses the tools to make a standstill operational.

Existing Contractual Provisions

Sovereign bond contract reforms since 2003 can help support a more orderly debt restructuring, although they have important weaknesses. Tradable bonds account for more than three-quarters of the private external debt of middle-income countries and represent the fastest-growing share of this debt for low-income countries. Bonds also dominate near-term payment obligations and short-term debt in both groups. A standstill among private holders of sovereign bonds would involve a deferral of interest and principal payments falling due during the standstill period (perhaps 12 or 18 months). Deferring payments in a manner that would avoid a formal payment default is important, since default would trigger adverse effects for both the sovereign borrower and its creditors.

Full creditor participation in a standstill that would avoid a payment default could be facilitated through the contractual provisions widely adopted since 2003. Collective action clauses (CACs) allow for a qualified majority (typically 75 percent) of bondholders of a single bond issuance to bind all holders of the same issuance to a change in payment terms. The risk has always been—and would exist with a standstill—that a disruptive creditor would acquire a blocking position in a CAC vote, retain bonds with the original terms, and demand to be paid on the original schedule.

To address this problem, nearly half of all sovereign bonds governed by foreign law now have "aggregated" CACs that could allow creditor majorities voting together across multiple bond issues to modify interest and principal payments, thereby making it much more difficult for holdouts to obtain enough bonds to block an amendment. However, the most robust aggregation feature, which does not require a vote by individual bond series ("single limb" voting), may be used only when the bondholders affected by the amendments are offered amended instruments with identical new terms (the "uniformly applicable" condition).

Uniform applicability was introduced as a safeguard against discrimination among bond series in a broad-based restructuring, when the original maturities of the entire debt stock (or a significant portion of it) would be modified. While this would be the case with a definitive restructuring of unsustainable debt, it is not the case with a standstill, where the original maturities of debt falling due outside the standstill period would not be affected. Indeed, in the case of a standstill, the objective is to keep the maturity structure in place, except for any principal falling due during the standstill period.[2] Although the "single limb" approach is not available, sovereign debtors would still be able to use bond-by-bond and aggregated voting mechanisms that require a vote by each bond series to achieve a standstill. these mechanisms are more cumbersome and more prone to holdouts.

In the event that CACs cannot prevent a default on certain instruments, the objective would be to prevent disruptive creditors from exercising the right of "acceleration," which would result in the entire amount of the bond becoming due and payable. For many countries, such a step could clearly shift their debt stock into the territory of unsustainability. Most bond contracts have provisions that require a percentage (normally 25 percent) of the bondholders to vote in favor of an acceleration. CACs could be used to raise this threshold to 50 percent or more. Importantly, in the event of a default, the Fund would be able to continue to provide support to the member under its lending into arrears policy.

2 A uniform extension of maturities of bond issuances falling due outside the standstill period would also not result in uniformly applicable terms (and therefore could not be achieved through single limb voting): A bond maturing in 2021 and another maturing in 2023, each extended by a year, would still mature two years apart. However, if a general reprofiling of maturities—even those outside the standstill period—was pursued, a sovereign debtor could use the single limb approach to amend different pools of bonds ("subaggregation"). To the extent that one could create pools of different bonds with sufficiently close maturities, it may be possible to offer these creditors a single amended instrument, which would satisfy the "uniformly applicable" requirement.

In sum, contractual provisions are potentially useful, but imperfect. Moreover, a significant portion of the debt stock in low- and middle-income countries is in bilateral and syndicated loans and does not have CACs: For low-income countries, loans still represent just over 80 percent of the stock of long-term public and publicly guaranteed debt held by private creditors. For middle-income countries, they account for a quarter of the debt held by private creditors (see table). Even if all the bonds were amended, sovereign debtors would get limited relief. And even the most cooperative bondholders would likely rebel if asked to sit on the sidelines while other creditors do not participate in the standstill.

The limitations of CACs and most other contractual approaches have prompted more radical initiatives, such as the IMF's Sovereign Debt Restructuring Mechanism (SDRM) in 2002, which failed to garner adequate political support. Even if the current crisis catalyzed renewed interest in the SDRM, its implementation would require an amendment of the IMF's Articles of Agreement, an international treaty. This is highly improbable within the crisis timeframe.

If the international community had the appetite for a more aggressive approach than CACs—which may indeed be needed given the systemic nature of the current crisis—it could consider more rapid alternatives that have been used in the past. In particular, consideration could be given to a UN Security Council Resolution under Chapter VII of the UN Charter, which was used in 2003 to temporary shield Iraq's assets from creditors, bolstered by domestic legal measures in the United States and the United Kingdom (most international sovereign bonds are governed by English and New York state law).

A Sovereign Debt Coordination Group

To maximize the likelihood of a sustainable outcome and in light of the systemic nature of the crisis, a standstill requires

- a comprehensive creditor coordination mechanism, capable of reaching bilateral and syndicated bank loans;
- longer-term credit arrangements with nontraditional creditors, including commercial firms, sovereign wealth funds, and public-private hybrids; and
- trading partners extending credit in exchange for future deliveries of commodities.

At a minimum, such a mechanism would seek to dissuade creditors from exploiting differences in their claims on a sovereign to free ride on concessions made by others, and from undermining the standstill by seizing assets or securing other forms of preferential treatment from the debtor.

To this end, the G20 should call for the establishment of a Sovereign Debt Coordination Group consisting of sovereign borrowers and representatives of the official and private creditor community. While such a group would not have any legal authority, it would have the capacity to convene creditors, collect and disseminate information, and facilitate negotiations among sovereign debtors and their creditors. It could also serve as a liaison with national financial regulators to monitor the impact of a standstill on the financial system and minimize the chances of systemic distress. Past sovereign debt and banking crises in the 1980s, and more recently in Europe a decade ago, used variants of this mechanism.

External debt of low- and middle-income countries, 2018 (billions of US dollars)

Debt category	Low-income countries	Middle-income countries	Total
IMF credit	**8.8**	**142.2**	**151.0**
Long-term debt	**132.4**	**5,386.8**	**5,519.2**
Public and publicly guaranteed debt from:	***118.1***	***2,815.8***	**2,933.9**
Official creditors	104.4	999.8	1,104.2
Multilateral	64.3	601.9	666.3
World Bank	39.0	285.9	324.9
Bilateral	40.0	397.9	438.0
Private creditors	13.7	1,816.0	1,829.7
Bondholders	2.6	1,388.0	1,390.7
Commercial banks and others	11.1	428.0	439.0
Private nonguaranteed debt from:	***14.3***	***2,571.0***	**2,585.3**
Bondholders	0	484.3	484.3
Commercial banks and others	14.3	2,086.7	2,100.9
Short-term debt	**9.1**	**2,139.8**	**2,148.9**
Total	**150.3**	**7,668.8**	**7,819.1**
Disbursements (long-term)	**15.0**	**1,033.1**	**1,048.1**
Debt service (long-term)	**10.4**	**1,562.5**	**1,572.9**
Principal	5.2	781.2	786.5
Interest	1.9	213.7	215.5
Memorandum items:			
External debt to exports	n.a.	100.4	100.8
External debt to gross national income	27.8	25.5	25.6
Debt service to exports	n.a.	14.2	14.0
Short-term to external debt stocks	6.0	27.9	27.5
Multilateral to external debt stocks	42.8	7.8	8.5
Reserves to external debt stocks	n.a.	74.3	73.4
Gross national income	540.9	30,025.6	30,654.9

n.a. = not available

Note: Gross national income components do not add up to total.

Source: World Bank.

Although it is unlikely that the debt consequences of the growing pandemic will trigger a systemic banking crisis in advanced economies, its impact on the real economy and spillover effects in a wide range of countries warrant continuous monitoring and may require early intervention. Given the proposed coordinating group's critical mandate and the changed composition of sovereign debt today, it is essential that the group have broad geographic and stakeholder representation.

BROADER REFORMS

The crisis has highlighted the need for broader and longer-term reform in this area. A particular priority should be debt transparency. The arrival of new and nontraditional creditors exposed flaws in the data collection and disclosure systems that have characterized the sovereign debt ecosystem for decades. Increasingly diverse debtor and creditor communities make flaws such as fragmentation, parochial and instrumental data collection, and unintelligible or inaccessible presentation more apparent and their impact more serious.

In addition, the pandemic crisis boosts the case for state-contingent sovereign debt. Had countries included standstill clauses in their debt contracts when these were actively discussed several years ago, they might have been able to secure binding standstills in many cases without the kinds of backstop measures we recommend in this chapter. The international community could encourage the use of such instruments with technical assistance, exemptions or favorable treatment in the program context, and outright subsidies for the poorest countries. Restructuring precedent and a model term sheet produced by a Bank of England working group are a good place to start.

9 Enhancing central bank cooperation in the COVID-19 pandemic

Christopher G. Collins, Simon M. Potter, and Edwin M. Truman

The G20 should support increased central bank cooperation in providing needed financial resources to countries suffering liquidity crises resulting from COVID-19. On March 26, 2020, G20 leaders congratulated the major central banks for extending temporary swap lines to other central banks in which they provide their currencies in exchange for the receiving central bank's currency. But the major central banks can do more to help countries plunged into crisis through no fault of their own. They can (1) set up facilities to provide cash for sovereign assets in their currencies held by other central banks, (2) provide additional liquidity swap lines where appropriate, and (3) in some critical cases link their swap lines to a backstop from the International Monetary Fund (IMF).

The US Treasury and the Federal Reserve have a special responsibility to support the global financial system in times of stress because the US dollar is the principal international currency: 60 percent of foreign exchange reserves are in dollars; 90 percent of foreign exchange transactions involve the dollar; and the dollar accounts for two-thirds of the international liabilities of non-US banks. Thus, in carrying out its responsibilities, the Federal Reserve not only directly benefits the United States but also provides indirect benefits to the United States, through impacts on its international partners, and the global financial system.

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TRADITIONAL SERVICES OF CENTRAL BANKS

For more than a century, the Federal Reserve has offered services to foreign central banks as part of this central role. The initial motivation for providing these services was to support US entry into World War I. The two key central bankers involved, Benjamin Strong and Montagu Norman, put forth a vision of coordinated central bank action to combat global threats that is particularly relevant in the fight against COVID-19.

The Federal Reserve Bank of New York (FRBNY) offers services to nearly all central banks in the world as part of the reserve role of the US dollar.[1] For example, it allows foreign and international monetary authorities[2] (FIMA) to invest dollars in a foreign repurchase agreement (repo) pool providing overnight

1 Simon Potter, Mark Choi, and Matthew Nemeth, 2020 (forthcoming), "Central Banks as Bankers to Each Other," in *Asset Management at Central Banks and Monetary Authorities*, ed. Jacob Bjorheim (New York: Springer).

2 International monetary authorities are organizations such as the IMF and Bank for International Settlements.

liquidity. On March 31, the Federal Reserve established a new temporary facility for FIMA accounts to enter into overnight repurchase transactions with the System Open Market Account, a service with the potential to temporarily liquify when necessary most of the US Treasuries held by central banks as insurance against bad times. At least eight other central banks offer similar services to their fellow central banks.[3] They should, if they are not already doing so, offer similar liquidity facilities, which allow foreign central banks to temporarily liquify their reserve holdings at an assured price and without disrupting the securities markets of the issuing countries.

CENTRAL BANK SWAP LINES

On March 19, the Federal Reserve had already reestablished its liquidity swap lines with nine central banks that were first established in 2008. They were in addition to the standing lines it has with the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank. Liquidity swap lines allow a foreign central bank to access foreign-currency liquidity from the issuing central bank in exchange for its own currency and provide the foreign currency to local financial institutions. The maximum amount that the central banks of Brazil, Korea, Mexico, and Singapore could draw was set at $60 billion each compared with $30 billion each during the global financial crisis of 2008–10.

During that previous crisis, eight central banks established 37 swap lines with 27 other countries. Seven of those swap lines provided currencies to central banks of emerging-market economies other than the four that had swap lines with the Federal Reserve: Argentina, Belarus, Hungary, India, Indonesia, Malaysia, and Poland.[4] Fifteen participants in the currency swap arrangement known as the permanent Chiang Mai Initiative Multilateralization (CMIM) established in 2010 also potentially provide US dollars from central banks with ample reserves in a swap for the drawing central bank's currency. The new FIMA repo facility would provide a means for the central bank supplying dollars in the CMIM to easily temporarily liquify its dollars.[5]

The major central banks, led by the Federal Reserve, should expand the number of their active swap lines where appropriate to fight the global economic impact of COVID-19. The boundaries set on participation in these arrangements a dozen years ago could be adjusted in recognition of the evolution of the global financial system since then and more importantly the global impact of COVID-19. Obviously, the Federal Reserve is the critical central bank that should be reviewing the criteria for expansion of the number of its swap lines. Such a review is especially important for jurisdictions where natural hedges for dollar debt have

3 The central banks of Australia, Canada, China, France, Germany, Korea, the Netherlands, the United Kingdom, and the European Central Bank.

4 In addition, European central banks established swap lines with the central banks of Estonia and Latvia, which are now part of the eurozone; and the central bank of Iceland had swap lines with several European central banks. Relevant to this discussion, in 2015 the Swedish Riksbank established a swap line to provide dollars to the National Bank of Ukraine in the context of Ukraine's crisis.

5 On March 20, the European Central Bank and the central bank of Denmark reactivated their euro liquidity swap line, doubling it to €24 billion. On March 31, the central bank of Thailand and the Bank of Japan established a liquidity swap facility in Thai baht to complement an existing liquidity swap facility in Japanese yen.

disappeared because of the sudden decline in global financial activity during the COVID-19 pandemic. However, these considerations are also relevant for other central banks that issue international currencies.

The advantages of swap arrangements are that they help to stabilize domestic and foreign financial markets; they provide the recipient central banks with foreign-currency resources in addition to their existing foreign exchange reserves; they appropriately place the lending risks to the private sector with the home-currency central banks, given that foreign financial institutions with a presence in the issuing country typically have access to that country's central bank discount window; and they tend to reduce pressures on the major currencies to appreciate.

Credit outstanding from the Federal Reserve to foreign central banks on its liquidity swaps had jumped from negligible in the first half of March ($45 million on March 18, 2020) to a substantial $394 billion by April 3, 2020 (see figure). On April 9, $397 billion remained outstanding. The dramatic rise since mid-March reflects the increase in tensions and turbulence in US dollar markets on- and offshore.

A NEW PROPOSAL

One of us (Truman) has proposed expanding the IMF's financial resources to fight the COVID-19 pandemic, and the G20 should encourage the major central banks to link their expanded multilateral swap networks to the Fund. This approach would recognize the distinction between liquidity pressures, which result from a temporary crisis, and solvency issues that result from permanent imbalances in the debtor country. In the former case, which confronts many countries today, the provision of liquidity by the central banks of the major countries is appropriate. It should also be sustainable because the Fund, with its traditional focus on solvency issues that require policy adjustments, would stand ready to backstop the swap lines.

The link to the IMF would have three parts: (1) an IMF assessment of the need for central banks to activate swap lines in the interests of the system as a whole, (2) an IMF judgment that the specific drawing country's external debt was sustainable before the COVID-19 outbreak, and (3) an advance commitment by the drawing country to borrow from the IMF if it could not repay the swap drawing and faced more serious adjustment challenges.[6]

An advantage of this approach is that it would not only expand the financial resources of the country drawing on the swap line but also conserve the financial resources of the IMF for longer-term lending. Today, IMF resources available for lending are about $790 billion, and Fund staff have estimated the gross financing need for emerging-market economies at $2.5 trillion in the absence of offsetting measures.

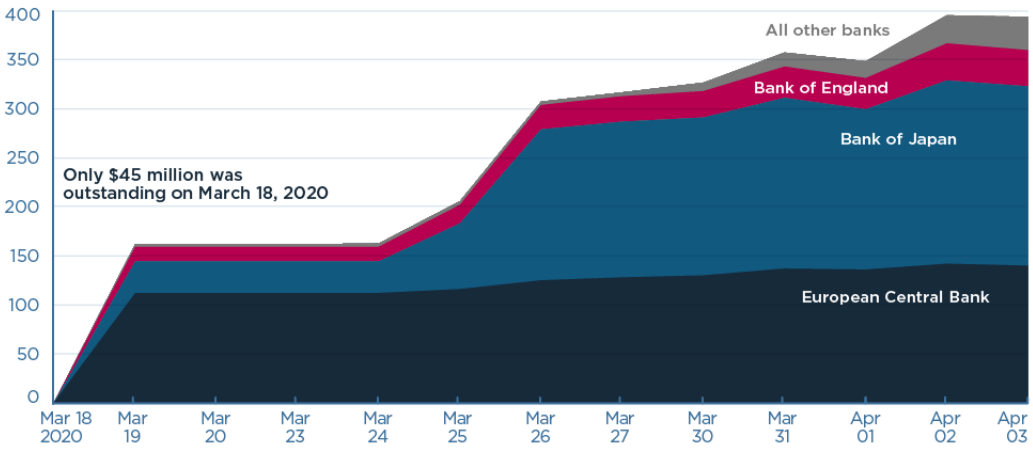
The central banks of four emerging-market economies now have access to the Federal Reserve's swap network: Brazil, Korea, Mexico, and Singapore. The central banks of the seven other countries mentioned earlier were eligible to draw on central bank swap lines in 2008. If all 11 central banks were granted access to IMF credit on the same scale relative to their IMF quotas that the first four countries now have—8.5 times their IMF quotas on average—$660 billion of

6 None of these elements would force a central bank to participate or preclude its participation without the blessing of the Fund.

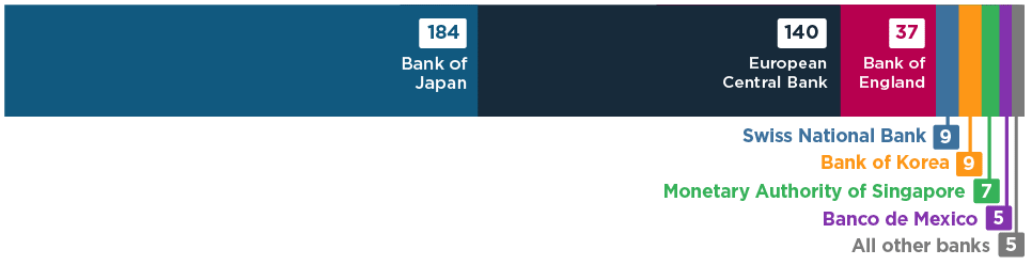
The Federal Reserve dramatically enhances foreign central banks' access to US dollars to stem COVID-19 fallout

Federal Reserve US dollar liquidity swap amounts outstanding, billions USD

a. March 18 to April 3, 2020



b. As of April 3, 2020



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Note: As of April 3, 2020, the Federal Reserve has swap arrangements with 14 central banks: European Central Bank, Bank of Japan, Bank of England, Swiss National Bank. Bank of Korea, Monetary Authority of Singapore, Banco de Mexico, Bank of Canada, Reserve Bank of Australia, Danmarks Nationalbank, Norges Bank, Banco Central do Brasil, Reserve Bank of New Zealand, and Sveriges Riksbank.

Source: Federal Reserve Bank of New York.

the IMF's resources would be committed to short-term lending. The Fund would effectively have no financial resources to lend to its other 178 member countries.[7] Although the Fund reportedly is actively considering establishing a swap-like short-term lending facility, the IMF's available financial resources will not allow it to do so on any substantial scale.

Aside from their domestic monetary policy and financial support activities, the major central banks can and should step up their international cooperative efforts to address the economic and financial effects of the COVID-19 pandemic. This would be a triple win: for the country of the major central bank, for the country of the partner central bank, and for the global monetary system. Central banks have been proactive in their domestic operations; G20 leaders can provide important political support by calling on them to go farther in their international operations.

7 The IMF has 189 members.

10 IMF's special drawing rights to the rescue

Christopher G. Collins and Edwin M. Truman

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The International Monetary Fund (IMF) has been the central institution of monetary cooperation for 75 years. It is again in the COVID-19 pandemic. However, its financial resources are limited to about $790 billion. Unlike a central bank, the Fund cannot expand its balance sheet with the click on a keyboard. It does, however, have one tool to augment instantaneously the international reserves of its members: allocating special drawing rights (SDR). G20 leaders should agree to support a $500 billion SDR allocation, which would instantly increase each IMF member's international reserves. It would significantly benefit poorer countries and help build confidence at a time of global crisis, dramatically demonstrating international cooperation.

The IMF created the SDR in 1969 to supplement other reserve assets of member countries. It is not a currency but is based on a basket of international currencies comprising the US dollar, Japanese yen, euro, pound sterling, and Chinese renminbi. SDR are both assets and liabilities of the IMF. They are allocated to members in proportion to their shares of IMF quotas. A member can transfer SDR to another member and receive credit in a convertible or hard currency, for example, US dollars or euros.[1] The current interest rate on this credit is at its minimum of 0.050 percent.[2] An SDR allocation is a low cost way of adding to members' international reserves, allowing members to reduce their reliance on their limited reserves at a time of crisis.

ARGUMENTS AGAINST SDR ALLOCATIONS

Critics make four classic arguments against SDR allocations.

First, there is no general need to increase international liquidity. However, the international scramble for US dollars in the COVID-19 pandemic demonstrates that there is a general need. The Federal Reserve's liquidity facilities are available mostly to advanced-country and emerging-market central banks, but that leaves out much of the developing world.

1 Countries that issue convertible or hard currencies can provide their currencies. Countries that do not can provide such currencies from their reserves. In the latter case, the SDR mechanism permits the redistribution of reserves from countries with excess reserves to those with low reserves.

2 Interest is charged on the difference between a country's allocation of SDR and its holdings. That rate is based on a weighted average of representative rates on short-term government debt instruments in money markets of countries issuing the five currencies in the basket valuation of the SDR subject to a minimum of five basis points.

Second, the allocation would lead to an increase in inflation as countries spend their SDR. We learned from the global financial crisis of 2008–10 and developments since then that inflation is not likely to be an important issue for years to come.

Third, SDR would be allocated to countries without imposing any conditions on recipient countries' economic policies. In the COVID-19 pandemic, providing financial assistance without strings attached is the number one approach being used by countries. Why should the IMF be different?

Fourth, the SDR would be allocated to countries that do not need a boost to their international reserves. Such countries would not need to use their SDR, but along with no benefit there would be no cost.

These last two arguments amount to a cynical statement that an SDR allocation would go to countries that either do not need or do not deserve a boost to their reserves. Nothing could be farther from the truth.

ARGUMENTS IN FAVOR OF SDR ALLOCATIONS

Set against these unconvincing arguments are strong arguments for an SDR allocation.

First, unlike most other large, fresh initiatives, an SDR allocation can be implemented quickly. A decision by the IMF executive board, for example, on May 1, 2020, to allocate $500 billion of SDR can be implemented by early August when the economic effects of the pandemic will still be raging.

SDR should be allocated quickly to maximize their positive impact on global economic confidence and their usefulness to recipient countries. Consequently, the proposal should confront the minimum of legal barriers in member countries. For the United States, the law limits to the size of the US quota in the IMF the amount of an SDR allocation during one basic period of five years that the Treasury secretary can vote for after giving a 90-day notice to Congress without receiving advance congressional approval.

The US IMF quota is $113.3 billion.[3] The US share of IMF quotas is 17.45 percent. Therefore, today the Treasury secretary could vote for an SDR allocation of up to $649 billion without receiving explicit congressional approval. These calculations suggest that the allocation could be as large as $600 billion and still be safely under the congressional limit. However, we stick with the illustrative figure of $500 billion in this chapter.

The United States must approve any SDR allocation because an 85 percent majority vote is required, and the United States' voting share is 16.51 percent of the total.

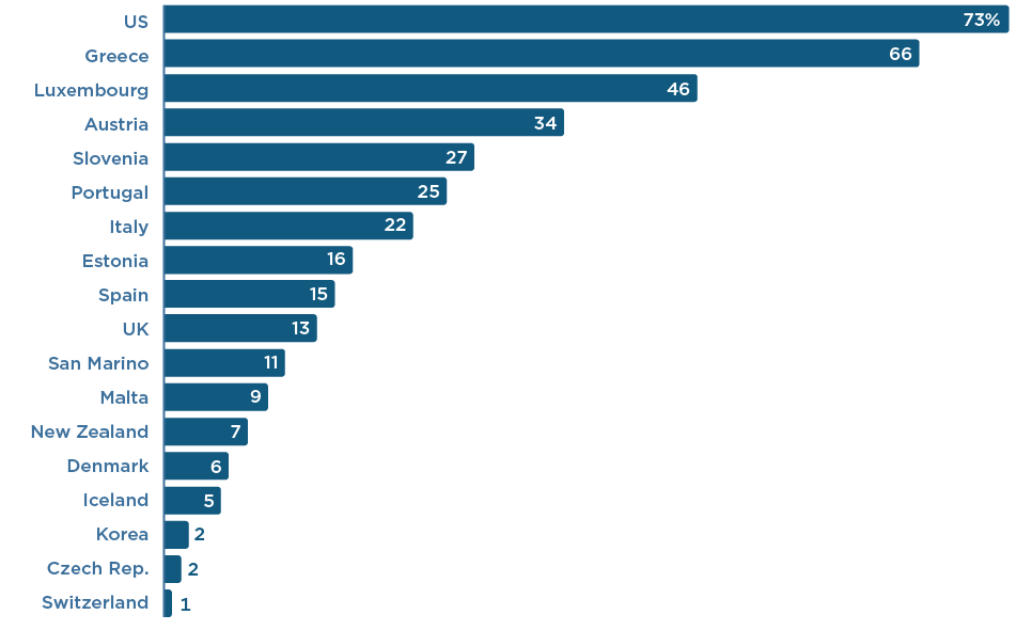
Second, the allocation of $500 billion of SDR would boost total international reserves, excluding gold, of the 189 IMF members by 4.5 percent from $11.2 trillion at the end of 2019. For many countries, this increase would be significant on average. SDR allocations are distributed based on quota shares, with the consequence that the countries with the largest quotas receive the largest allocations. However, IMF quotas are less skewed in the direction of large wealthy countries than reserve holdings. Consequently, an allocation of $500 billion of SDR would boost the international reserves of 77 IMF members by 10 percent or

3 Using 1 SDR = 1.36563 US dollars, the rate on April 3, 2020.

Figure 1

A $500 billion IMF allocation would provide substantial drawing rights to some advanced economies

Advanced economies' share of IMF's $500 billion SDR allocation as a percent of their non-gold international reserves



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IMF = International Monetary Fund; SDR = special drawing rights

Note: The list of advanced economies contains 35 countries. The figure shows only every other country on the list.

Sources: IMF data on international liquidity and quota shares and authors' calculations.

more. Emerging-market and developing economies would receive 38.45 percent of a $500 billion SDR allocation.[4] Fifty-six of these members would receive at least a 10 percent boost and 17 of them would receive increases of more that 50 percent. For advanced-country members, 21 would receive a boost of at least 10 percent and 4 would get increases of more than 50 percent (figures 1 and 2).[5]

Third, the 76 low-income and other countries that are potentially eligible for loans from the World Bank's International Development Association (IDA) would receive $22 billion in SDR. This amount might look tiny, but it would amount to a 9.4 percent boost to their combined international reserves. For 22 of the 76 countries the boost would be 20 percent or more. The $22 billion total compares favorably with average annual IDA commitments over the past three years of $21.2 billion and disbursements of $14.9 billion.

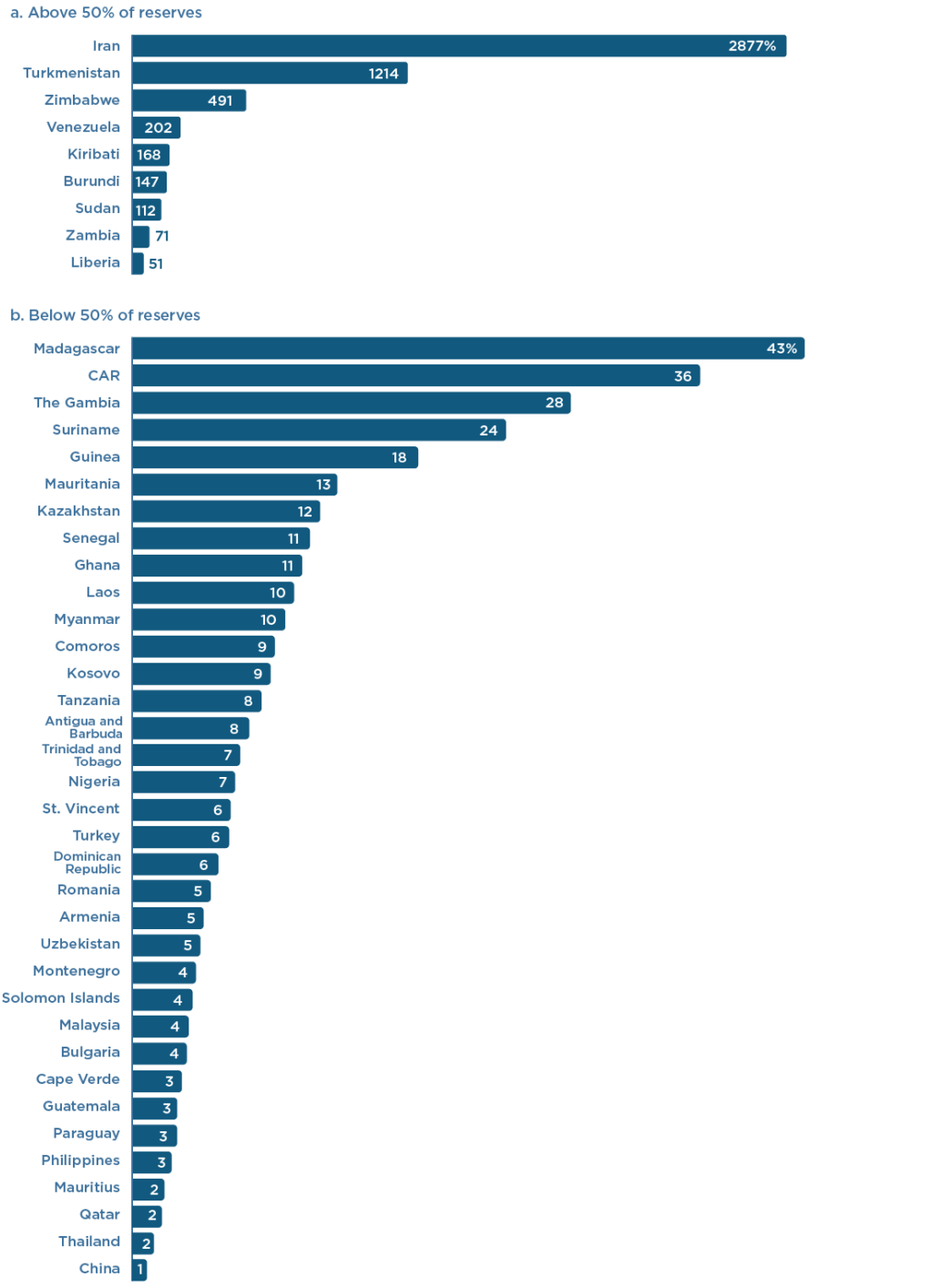
4 This analysis uses the IMF *World Economic Outlook* classification of countries into 34 advanced and 155 emerging-market and developing countries, rather than the historical classification used in quota negotiations. In the latter classification, emerging-market and developing countries receive a 42 percent share.

5 Some numbers in an earlier version of this paragraph and the associated figures for the increases in countries' reserves from a $500 billion allocation of SDR were distorted due to a programming error.

Figure 2

Low-income nations would benefit most from a $500 billion IMF allocation

Emerging-market and developing economies' share of IMF's $500 billion SDR allocation as a percent of their non-gold international reserves



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IMF = International Monetary Fund; SDR = special drawing rights; CAR = Central African Republic

Note: The list of countries in panel a contains 17 countries but only every other country is shown. The list of countries in panel b contains 137 countries but only every fourth country is shown.

Sources: IMF data on international liquidity and quota shares and authors' calculations.

Fourth, countries that do not immediately need their SDR can lend or give them to other countries or lend or give them to the IMF.

A $500 billion SDR allocation would not solve all the challenges facing the IMF and its members from the COVID-19 pandemic, but it would help significantly. Most important, it would build confidence in countries to seek cooperative solutions in this difficult time.

11 Exchange rate policy in the COVID-19 pandemic

Christopher G. Collins and Joseph E. Gagnon

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Exchange rate pressures in the COVID-19 pandemic are an important signal to global policymakers of underlying economic stress. Aggressive and coordinated policy responses within the G20 and the wider world can aid vulnerable economies and damp excessive currency swings. Key measures include those discussed elsewhere in this *PIIE Briefing*, such as central bank swap lines, increased resources for international financial institutions, and avoiding protectionist policies.

Market commentary has focused on the strength of the US dollar, but the dollar has moved little against the other main reserve currencies such as the euro and the yen. Rather, it is the currencies of many emerging markets and energy exporters that have fallen sharply against the reserve currencies.

G20 and other affected countries may wish to consider direct coordinated intervention in foreign exchange markets if these unwelcome depreciations persist or intensify. Any intervention should be mutually agreed between the buying and the selling governments. Countries with strong currencies should not be buying each other's currency in an attempt to deflect appreciation elsewhere. Rather, countries with strong currencies should be buying currencies that have experienced excessive and unwelcome depreciations. Interventions should not be undertaken to achieve any specific level of exchange rates, but rather to lean against disorderly movements.

BACKGROUND

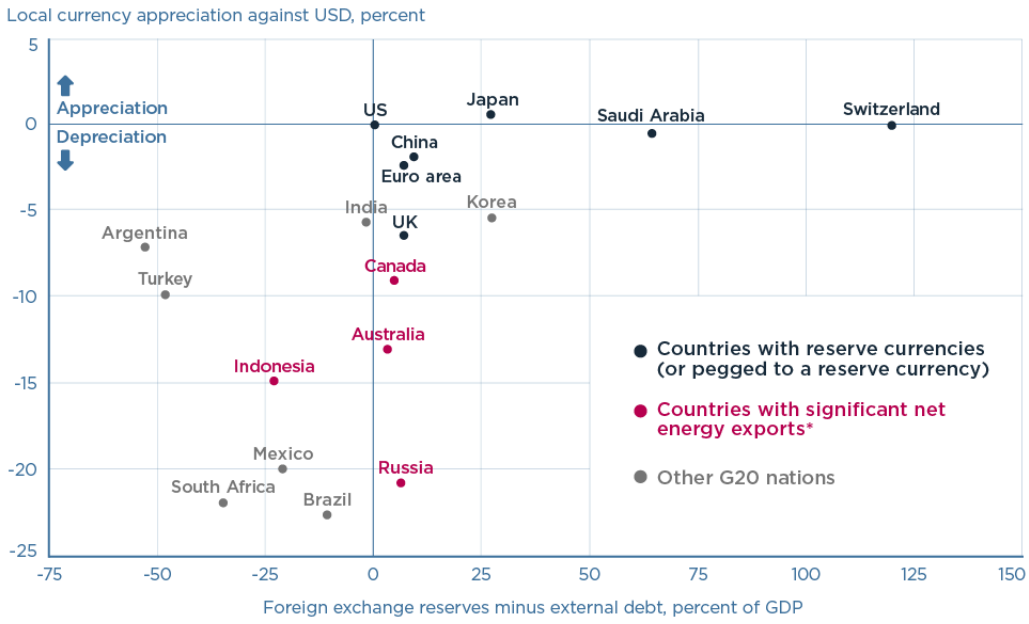
For more than 10 years, G20 leaders have pledged to seek market-determined exchange rates and abjured targeting exchange rates for competitive purposes. Over time, G20 countries that had a history of currency manipulation—China, Japan, Korea, and Russia—gradually moved away from excessive official purchases of foreign currencies. As of 2018, it appeared that no G20 country was manipulating its currency.

Nevertheless, the US dollar strengthened sharply in late 2014 and early 2015 as markets began to anticipate that the Federal Reserve would raise US interest rates while rates in most other countries seemed set to remain low. The dollar was roughly stable from late 2015 through February 2020 before increasing moderately in March 2020 (based on the Federal Reserve's broad real dollar index).

The COVID-19 pandemic has not pushed the dollar up against all currencies, however. Rather, currencies of vulnerable countries appear to have fallen against those of other countries. The two main sources of vulnerability are stocks of debt issued in foreign currencies that exceed foreign exchange reserves and dependence on commodity, chiefly energy, exports. Among countries without

Countries with foreign-currency debts that exceed their foreign exchange reserves have seen large currency declines

Currency changes, December 31, 2019–March 31, 2020, vs 2019 reserve adequacy



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*Net energy exports greater than 20 million tons of oil equivalent in 2018.

Note: Reserves as of December 31, 2019 including net forwards and futures positions. External debt as of December 31, 2018. GDP is IMF estimate for 2019.

Sources: Macrobond from IMF, World Bank, and national sources; *Global Energy Statistical Yearbook 2019*.

these vulnerabilities, exchange rates have moved relatively little, but there is modest evidence of a flight to currencies traditionally viewed as safe havens, in particular those of Japan, Switzerland, and the United States.

RECENT BEHAVIOR OF G20 EXCHANGE RATES

The vertical axis in the figure displays the percent changes of G20 currencies and the Swiss franc against the US dollar from December 31, 2019 to March 31, 2020.[1] The horizontal axis displays each country's foreign exchange reserves minus external foreign-currency debt as a percent of GDP. Countries with reserve currencies (or a currency pegged to a reserve currency in the case of Saudi Arabia) are shown in black.[2] Countries with significant net energy exports (greater than 20 million tons of oil equivalent in 2018) are shown in red.[3]

1 We include the Swiss franc because it is often considered a reserve currency and because Switzerland's GDP is larger than those of Argentina and South Africa and roughly as large as those of Saudi Arabia and Turkey.

2 Reserve currencies are those that are widely held as foreign exchange reserves by central banks around the world. Here we focus on the constituent currencies of the International Monetary Fund's special drawing rights (US dollar, Chinese yuan, euro, yen, and UK pound) plus the Swiss franc.

3 Saudi Arabia is also a major energy exporter, but its currency peg, supported by large foreign exchange reserves, is what matters here.

With the notable exception of the UK pound, which may have been influenced by the Brexit outlook, other reserve currencies have moved little against the US dollar. Countries with external debts that exceed their foreign exchange reserves have seen large declines in their currencies. The muted declines for Argentina and Turkey almost surely reflect the fact that their currencies declined far more than the others in 2019. The countries without large external debts that experienced sharp depreciations in 2020 are all major energy exporters.

Health policy responses to the pandemic are causing a very large drop in global energy demand, which has pushed down energy prices and foreign-currency revenues of major energy exporters. The economic textbook response is a sharp drop in the foreign exchange values of the currencies of energy exporters. For energy exporters that have not borrowed significant amounts in foreign currency (Australia, Canada, and Russia), the depreciation benefits tradable sectors of the economy and helps to stabilize the trade balance. For Indonesia, which has external debt in excess of its foreign exchange reserves, the benefits will be offset to some extent by financial stress on the borrowers.

The other countries with external debts in excess of reserves (Argentina, Brazil, Mexico, South Africa, and Turkey) have relatively small energy balances and are not strongly affected by the drop in energy prices. They may be adversely affected, however, by declines in other commodity prices and by the collapse of global tourism. Mexico is particularly vulnerable to the expected drop in US automobile sales and production. All these developments reduce projected export earnings and thus hamper the ability of external borrowers to service their loans.

A key concern in these countries is that their governments have only limited capacity to lend to external borrowers in the currency in which they borrowed. Central banks in many developing economies are selling foreign exchange reserves to obtain reserve currencies they can lend to domestic borrowers.[4] But reserves are less than external debt in many countries, and central banks are often loath to draw down more than a fraction of their reserves.[5]

In some cases, borrowers can liquidate local assets or obtain emergency loans in local currency from their governments or banking systems. But they must sell the proceeds to get the foreign currency to service their loans. This puts downward pressure on the local currency, as seen in the figure. The currency depreciation, in turn, raises the burden of foreign-currency debt service for companies that do not receive emergency loans, crowding out spending on domestic goods and services and damping economic activity.

4 Foreign exchange reserves data for March 2020 are not yet available, but securities held in custody at the Federal Reserve Bank of New York for foreign central banks declined $117 billion between March 4 and April 1.

5 Indeed, there is a longstanding asymmetry between the rapidity with which many countries buy foreign exchange reserves to resist appreciation and their reluctance to sell reserves to resist depreciation. This asymmetry has led to a large secular increase in global foreign exchange reserves. Unfortunately, the largest reserve holdings are often by countries with the least external debt.

A MODEST PUZZLE IN RESERVE CURRENCIES

As indicated in the figure, recent exchange rate developments largely reflect the weakening of specific currencies with external vulnerabilities. An interesting question, however, is why the currencies of other reserve-issuing countries have not risen moderately against the dollar. After all, the United States is nearly self-sufficient in energy and many other commodities, whereas the other reserve-issuing countries have benefited strongly from sharp declines in the prices of their commodity imports. Moreover, US interest rates dropped considerably more than rates in other reserve-issuing countries in early 2020, which should have made the dollar less attractive to investors.

One possible explanation is that policymakers in these countries have been intervening in foreign exchange markets to prevent such an appreciation. We will not have the data to verify that explanation for a few more weeks. But it seems unlikely that Japan, the euro area, and the United Kingdom would have reversed a long established policy of nonintervention.[6] And China recently signed an accord with the United States that committed to a market exchange rate between the two countries.

There are signs that Switzerland may be intervening to prevent the appreciation of its currency.[7] Switzerland is not a member of the G20 and thus has not pledged to avoid targeting its exchange rate for competitive purposes. Indeed, as we showed in a PIIE blog, Switzerland has a recent history of large-scale intervention in foreign exchange markets.[8]

Aside from potential Swiss intervention, the most likely explanations of the puzzling nonappreciation of reserve currencies against the dollar are that (1) most of the risky foreign-currency borrowing is denominated in dollars, which increases the scramble to get dollars, (2) market participants expect a more vigorous fiscal response to the pandemic in the United States than elsewhere, and (3) the United States is viewed as the world's strongest and safest economy.[9]

POLICY RECOMMENDATIONS

For energy exporters without significant foreign-currency debt, moderate depreciations are a natural part of the adjustment process and pose little danger. For economies with significant foreign-currency debt, sharp depreciations threaten more harm from inflation and rising debt service burdens than any benefit from greater exports, especially in the near term. Economies facing

6 However, on March 31, 2020, Japan's Government Pension Investment Fund announced an increase in its target share of foreign assets from 40 to 50 percent of its portfolio. With total assets worth $1.6 trillion as of yearend 2019, this shift implies net new purchases of foreign assets worth $160 billion. It appears that this shift was planned well before the pandemic, with 3 percentage points of the shift already accomplished by the end of 2019.

7 An article by Greg Ritchie in Bloomberg on April 2 noted that bank reserves at the Swiss National Bank have jumped sharply in March, in a pattern similar to that of previous episodes of large-scale currency intervention.

8 The Swiss National Bank uses large-scale intervention to avoid the deflationary effects that would arise from a further appreciation of the Swiss franc. This 2014 PIIE Policy Brief discusses alternative policy options for Switzerland that would avoid deflation while allowing beneficial adjustment of its large trade surplus.

9 A problem with the second explanation is that long-term bond yields have declined more in the United States than in other countries, which is not consistent with the conventional channel by which fiscal policy affects exchange rates.

unwelcome sharp depreciations include many emerging-market and developing economies both inside and outside the G20. These economies need access to credit in foreign currency in order to service their debts without putting downward pressure on their exchange rates.

The most important policies to help economies facing unwelcome depreciations include providing access to central bank swap lines and beefing up lending capacity at the international financial institutions. Keeping markets open for exports from these countries is also helpful. These policies are the topics of other chapters in this *Briefing*.

Reserve-currency countries may wish to consider coordinating direct foreign exchange intervention with affected countries if these unwelcome exchange rate tensions persist. Such intervention would be consistent with a longstanding principle that government intervention to calm disorderly exchange markets is both justified and beneficial. Any intervention should be undertaken in the spirit of "leaning against the wind" without any explicit or implicit expectation of achieving a given target for the exchange rate.[10] Whereas modest interventions between currencies of advanced economies with open and sophisticated financial markets might have only minor effects, evidence suggests that official purchases of currencies of emerging-market and developing economies often have more substantial effects.

One of us (Gagnon) has argued elsewhere that intervention in foreign exchange markets should be aimed at stabilizing and narrowing trade imbalances. Thus, one generally would not want to intervene to support the currency of a country with a persistent external deficit, such as Brazil. This principle is important in normal times, but it should take a back seat during the current COVID-19 episode of exceptional volatility, when exchange rates of some debtor countries have moved too far too fast. Indeed, if Brazil's exchange rate were to remain at its current level in real terms, its current account deficit would surely shrink and perhaps even move into surplus. Further depreciation at this point is not helpful.

Any intervention should be mutually agreed between the buying and the selling governments. Countries with strong currencies should not be buying each other's currency in an attempt to deflect appreciation elsewhere. Rather, countries with strong currencies should be buying the weaker currencies to minimize or reverse unwelcome sharp depreciations. Such purchases benefit both countries and even stand a good chance of being profitable when the panic subsides.

10 There is considerable evidence that sterilized foreign exchange intervention does have significant effects on exchange rates and trade balances, especially in countries with restrictions on cross-border capital mobility. (See the papers by Blanchard, Adler, and de Carvalho Filho and by Gagnon.) But it is not possible to make a precise prediction of how much a given intervention will move the exchange rate.

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