ECONOMIC POLICY IN DEVELOPING AND EMERGING COUNTRIES: A PRACTITIONERS' VIEW

Graduate Institute of International and Development Studies, Spring 2025

Disclaimer: The views expressed in these lectures are those of the author and do not necessarily represent those of the IMF or IMF policy.

COURSE DESCRIPTION

CONCEPT

TOPICS AND CALENDAR

REQUIREMENTS

GENERAL COURSE DESCRIPTION

- Concept: Presentation and discussion of current applied economic policy issues in developing and emerging countries

- Lecturers: A group of IHEID alumni with at least 10 years of career experience in international finance and/or development.

- Method: Combination of lectures on recent literature, with an emphasis on policy issues, and case studies to be presented by students, followed by discussion.

TOPICS AND CALENDAR

Week 1	Feb 17- 19	How the IMF is helping developing countries respond to shocks: the COViD-19 pandemic and beyond	Corinne Deléchat
Week 2	Feb 24-26	Making Development Finance Work	Jennifer Blanke
Week 3	Mar 3-5	Sovereign Debt Restructurings	Paul Mathieu
Week 4	Mar 10-12	Assessing External Imbalances	Luca Ricci
Week 5	Mar 17-19	The Rise of Digital Currencies	Tommaso Mancini-Griffoli
Week 6	Mar 24-26	Investing in Frontier Markets: A Private Sector's Perspective	Aurelie Martin
Week 7	Mar 31-Apr 2	Monetary policy issues in emerging market and developing economies	Thomas Helbling
Week 8	Apr 7- 9	Managing Public Finances	Manal Fouad
Week 9	May 5-7	Natural Resources Management	Jarek Wieczoreck
Week 10	May 12-14	International Trade: Fragmentation and Re-Globalization	Daria Taglioni

REQUIREMENTS

- Case study (45%)
  - Individual or in group of 2 (recommended)
  - Need to choose one case study from the list by: Saturday, February 22.
- Final exam (45%)
  - Format: 2 short essays. Pick 2 out of 8 questions, excluding from the week you presented your case study.
- Attendance and class participation (10% of the grade)
  - 80 percent required for full credit (includes filling instructor evaluation for each session)

HOW THE IMF IS HELPING DEVELOPING COUNTRIES RESPOND TO SHOCKS:

THE COVID-19 PANDEMIC AND BEYOND

Corinne Deléchat *

Assistant Director, Asia-Pacific Department

International Monetary Fund

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OUTLINE

1. LIC context pre-COVID, Role of the IMF
2. The Economic Impact of the COVID-19 Pandemic
3. The IMF Response : Economic Projections, Financing, and Policy Advice
4. Senegal Case Study

LICS: DEFINITION AND SUB-GROUPS

- **LICs:** 69 countries, income per capita below US$1,315 in 2024. 16% of the world's population—1.6 percent of global output.
- **Highly heterogeneous group** – 3 analytically useful subgroups:
  - **Income level:** 4 groups based on distance to IDA threshold.
  - **Institutional characteristics:** Frontier markets (10), small developing states (19), fragile and conflict-affected countries (36)
  - **Export structure:** Fuel exporters (5), non-fuel commodity exporters (27) diversified exporters (28), tourism-dependent (10)

Source: IMF, 2024 Macroeconomic Developments and Prospects in Low-income Countries, (2024 LIC report)

WHY ARE LICS DIFFERENT?

- Pre-existing high levels of poverty and inequality
- Large informal sectors
- Weak health systems
- Underdeveloped social safety nets
- Small share of jobs that can be done from home (e.g. agriculture, street venders, tourism-related jobs)
- Country-specific vulnerabilities: large tourism sector, oil exporters
- Small public sectors and tax revenue bases
- Limited fiscal space – already elevated levels of debt
- Limited or no access to international financial markets

THE ROLE OF THE IMF IN LICS

- **Macroeconomic stabilization consistent with strong and durable poverty reduction and growth through lending, policy advice and technical assistance.**
- Country ownership: link with homegrown poverty-reduction strategies
- Key features:
  - ➢ Different types of lending facilities to provide flexible support adapted to countries' needs
  - ➢ Streamlined and flexible conditionality
  - ➢ Highly concessional financing (PRGT)
  - ➢ Debt Sustainability Framework adapted to LIDCs

IMF ENGAGEMENT IN FRAGILE COUNTRIES

- **Challenging contexts:** institutional and capacity constraints, unstable political contexts, severe resource constraints, vulnerability to shocks
- **Enormous needs:** WB estimates that billion people live in countries affected by fragility, conflict, or violence, and the share of the extreme poor living in such countries is expected to rise from 17 percent of the global total currently to almost 50 percent by 2030.
- **Guidance on IMF engagement in FCS:**
  - Country engagement strategies to identify drivers of fragility and constraints to reforms
  - Well-tailored policy advice
  - CD delivery and prioritization
  - Tailor program design and structural conditionality to FCS circumstances
  - Engagement and coordination with other development partners
  - Develop staff with FCS expertise

IMF LENDING TOOLKIT: GRA AND PRGT

- **General Resource Account (GRA):**
  - Principal IMF account; all non-concessional lending to members. Pool of currencies and reserve assets from members' capital subscriptions (quotas).
  - Programs supported by GRA resources designed to resolve the member's BoP problem during the program period.
- **Poverty Reduction and Growth Trust (PRGT):**
  - IMF's concessional resources window, interest-free resources for LICs.
  - Programs supported by the Extended Credit Facility (ECF) (the primary instrument in the PRGT) help PRGT-eligible members with protracted BoP problems implement their economic programs aiming at a stable and sustainable macroeconomic position

THE IMF'S FACILITIES FOR LICS

- **Extended Credit Facility** (ECF): main tool for medium-term support to LICs with protracted balance of payments problems.
- **Standby Credit Facility** (SCF): for LICs with short-term actual or potential BoP needs, similar to the Stand-By Arrangement (SBA).
- **Rapid Credit Facility** (RCF): rapid low-access financing with limited conditionality to meet urgent BoP needs.
- **Policy Coordination Instrument** (PCI) nonfinancial policy support tool for ALL Fund members.
- **Catastrophe Containment and Relief Trust** (CCRT): allows for grants to alleviate debt service burden of LICs affected by natural or health disasters.
- **Resilience and Sustainability Facility** (RSF): established in 2022, provides long-term financing for building climate resilience and addressing long-term sustainability challenges.

THE IMF'S LENDING TOOLKIT FOR LICS

	SCF	ECF	RCF	PSI/PCI
BoP need	Short-term BoP need	Protracted BoP need	Urgent BoP need	Broadly stable macro, no BoP need, signaling
Duration	1-3 years	3-5 years	One-off	1-4 years, could be extended to 5 years
UCT quality	UCT	UCT	Non-UCT	UCT
Financing terms	Maturity: 8 yrs Grace: 4 yrs	Maturity: 10 yrs Grace: 5½ yrs	Maturity: 10 yrs Grace: 5 ½ yrs	Non disbursing
Access Limits	AAL: 145 % quota CAL: 435 % quota		AAL: 50 % quota CAL: 150 % quota	

IMF QUOTA REFRESHER

Resource Contributions

Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF.

Voting Power

Quotas are a key determinant of voting power in IMF decisions. Members get one vote per SDR100,000 of quota plus basic votes, which are the same for all members.

Access to Financing

Quotas determine the maximum amount of loans a member can obtain from the IMF under normal access.

SDR Allocations

Quotas determine a member's share in a general allocation of SDRs.

Source: https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas#:~:text=What%20are%20IMF%20quotas%3F,the%20IMF's%20unit%20of%20account.

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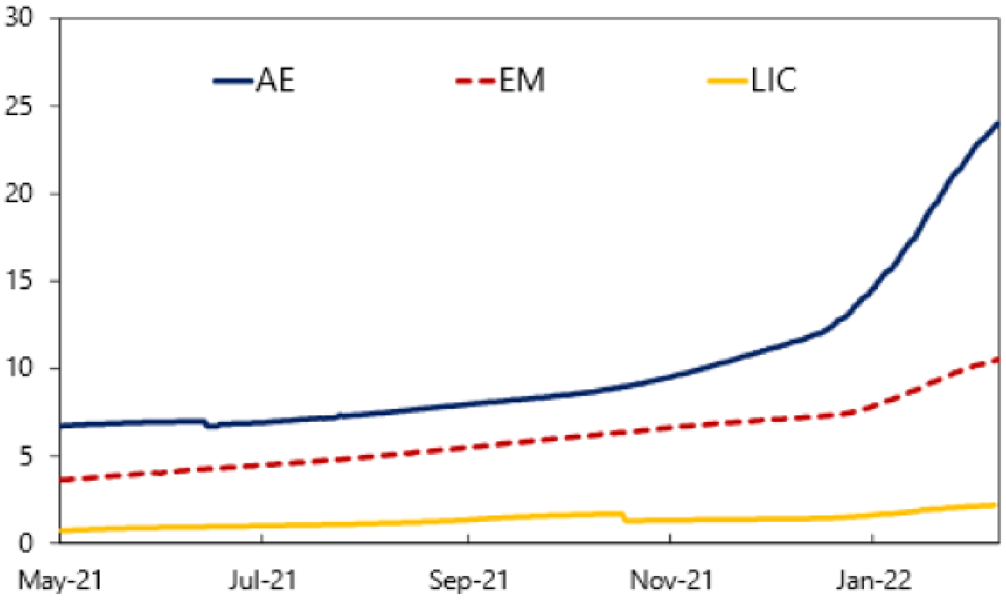
IMPACT OF THE COVID-19 PANDEMIC IN LICS (I)

COVID-19 New Infections

(Percent of Population)

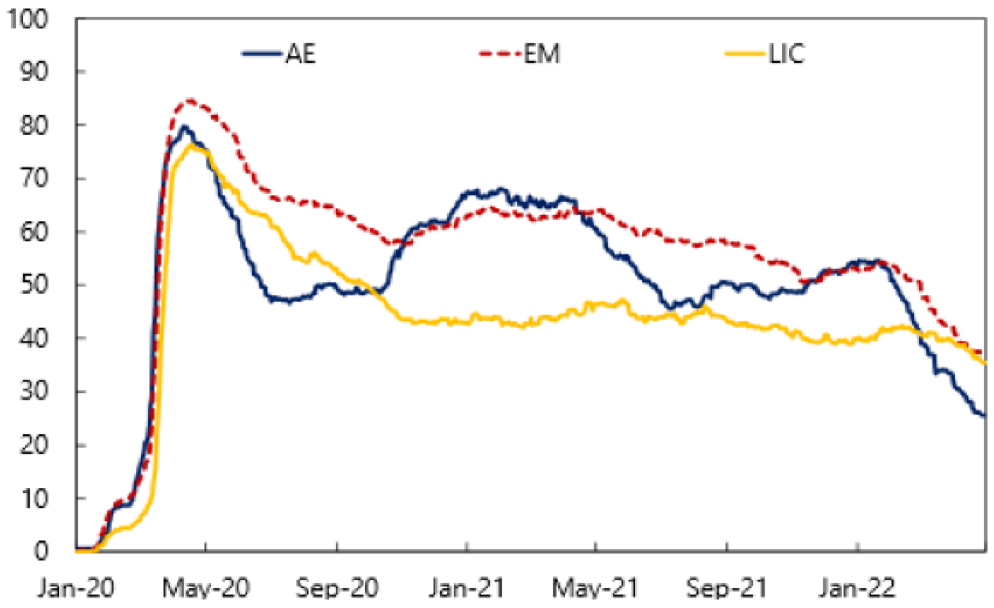


Sources: Johns Hopkins University

Note: small fluctuations are due to country coverage difference at different point in time.

Stringency Index

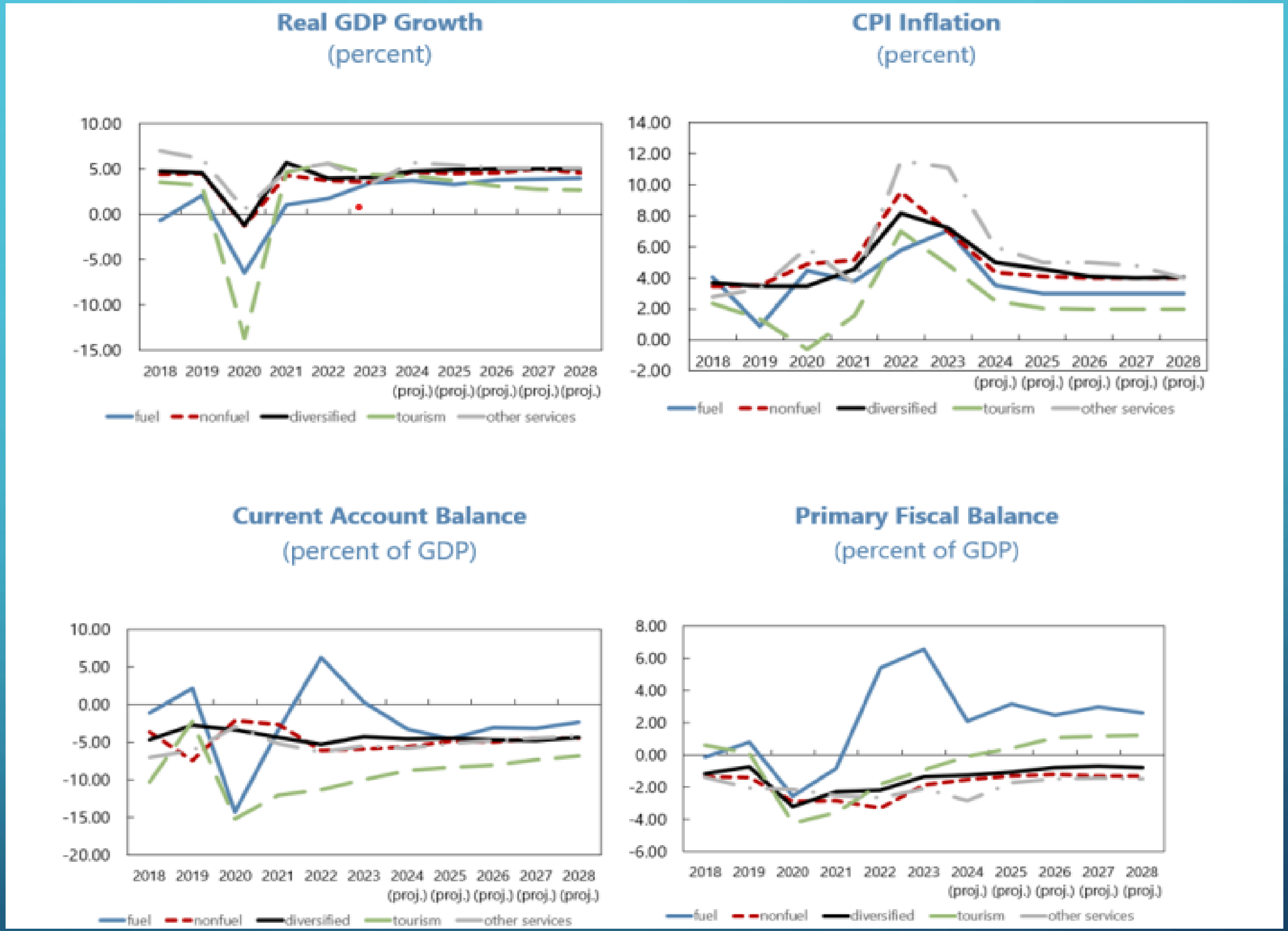
(Scaled from 0 to 100, weakest to strongest)



Sources: Oxford University

Source: 2022 LIC report.

IMPACT OF THE COVID-19 PANDEMIC IN LICS (II)



Source: 2024 LIC report.

COVID-19 IMPACT AND TRANSMISSION CHANNELS FOR LICS (OPEN ECONOMY)

Sharp Reduction in Growth

Domestic
- Partial/complete shutdown of non-essential economic activity.

External
- Reduction in external demand.
- Decline in remittances.
- Decline in commodity, especially fuel prices.

Large Fiscal deficits and debt

Expenditure
- Substantial increase in expenditure on healthcare and social safety nets.

Revenues
- Decline in due to decline in economic activity.
- For commodity exporters there may be additional hit from lower commodity prices.

Debt
- Rising fiscal gap necessitates debt financing.

Worsening of Current Account, depletion of Reserves and Depreciation of Currencies

Current Account
- Worsening of trade balance due to greater contraction of exports (owing to lack of external demand) than of imports. Tourism dependent economies will be especially hit.
- Lower remittances will contribute as well, though they also reduce consumer imports.

Capital Flows
- Massive outflows of capital and steep fall in inward FDI.

Reserves/Exchange rates
- The large outflows and worsening CA balance increase exchange market pressure resulting in depletion of reserves and/or depreciation of currencies which in turn leads to inflationary pressure.

Worsening of Bank Balance Sheets

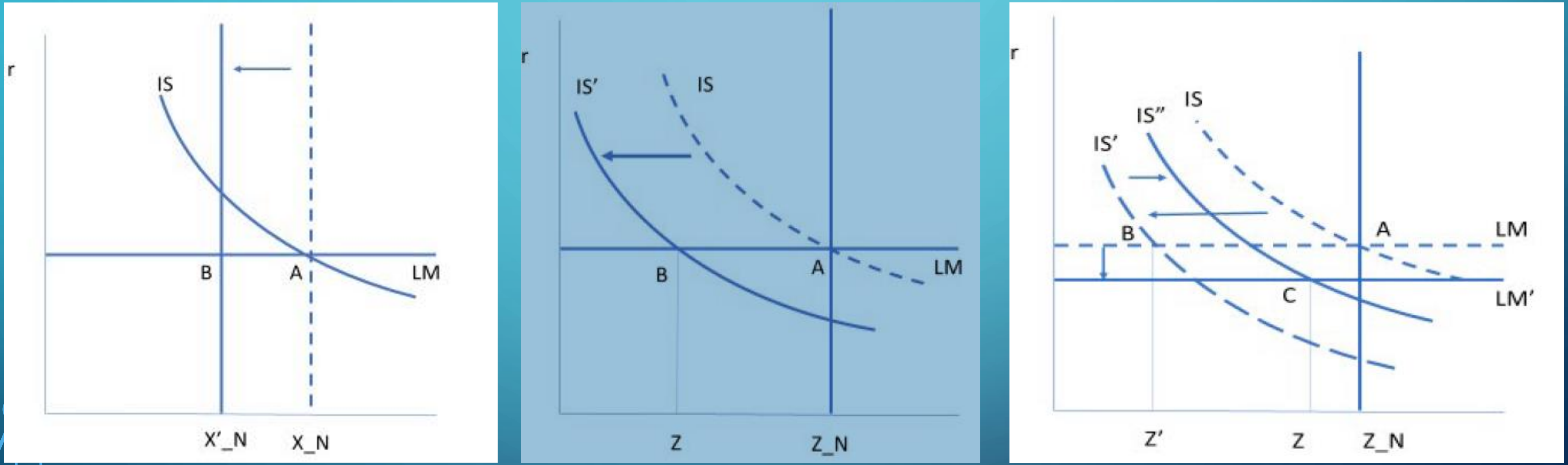
NPAs
- Large impact on bank balance sheets due to inability of households and businesses to service their loans – mortgages, business loans, consumer durable loans, etc.

Credit Growth
- Large drop in fresh credit up-take

Balance Sheet Mismatches
- Maturity and currency mismatches between banks' funding and income streams could become an issue.

THE MACROECONOMIC IMPACT OF COVID-19* (CLOSED ECONOMY)

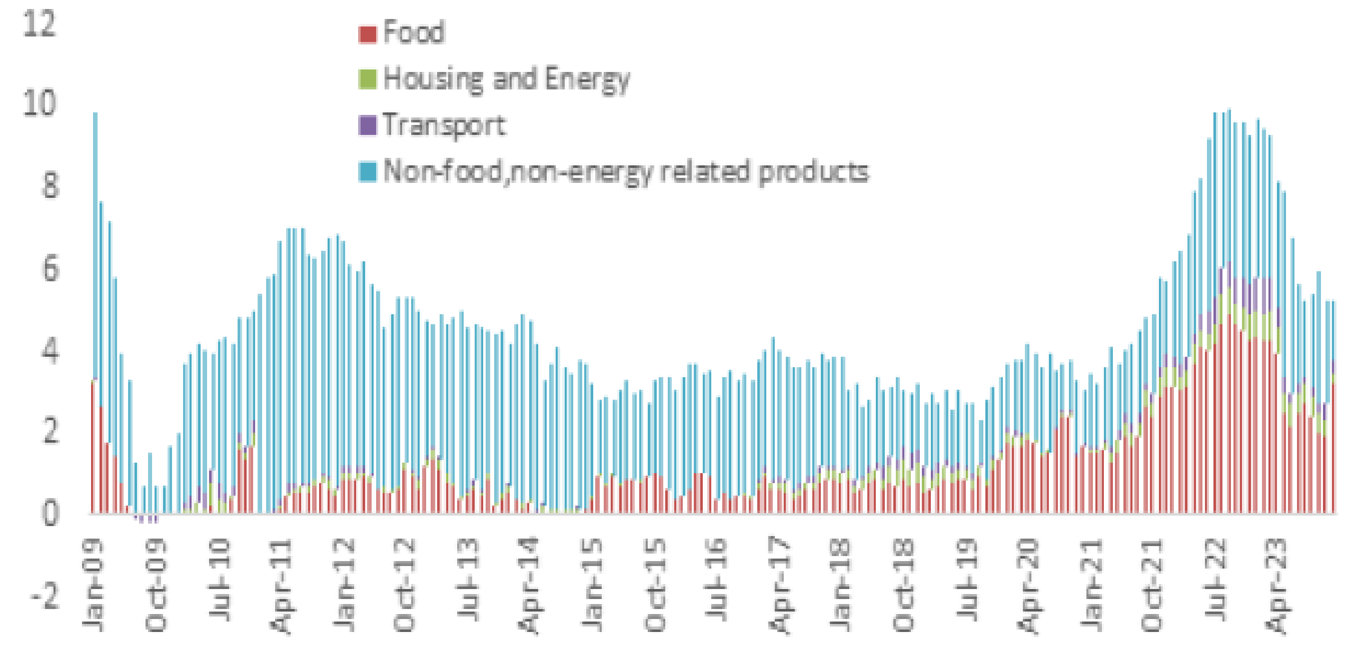
Change in output in affected sector Change in output in non-aff. sector, without and with policy response



*From Blanchard, O., Sept. 2020. The COVID economic crisis. (additional chapter for ``Macroeconomics, 8th edition).

NEW FOOD AND ENERGY PRICES SHOCK

Contributions to headline inflation in LICs



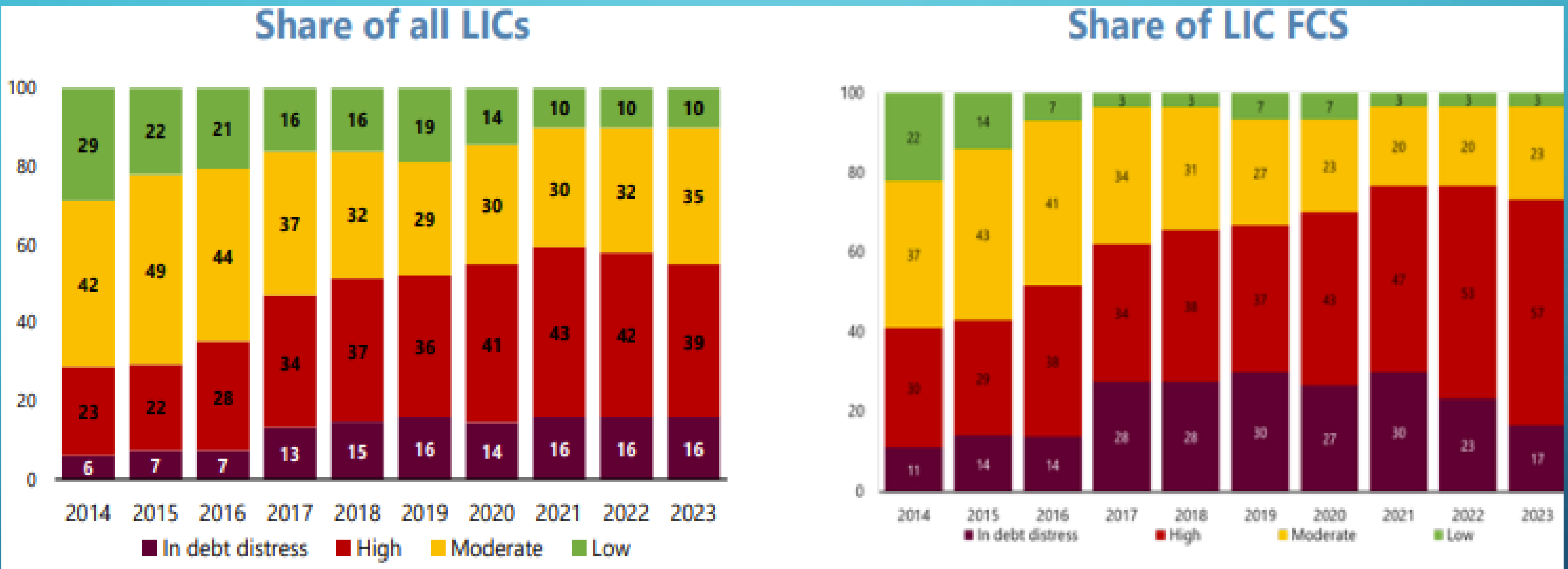
Sources: IMF CPI database and Fund staff estimates.

Note: The bars reflect median inflation contributions of each category across LICs, may not add up to the median inflation.

Source: 2024 LIC Report.

RISING DEBT VULNERABILITIES

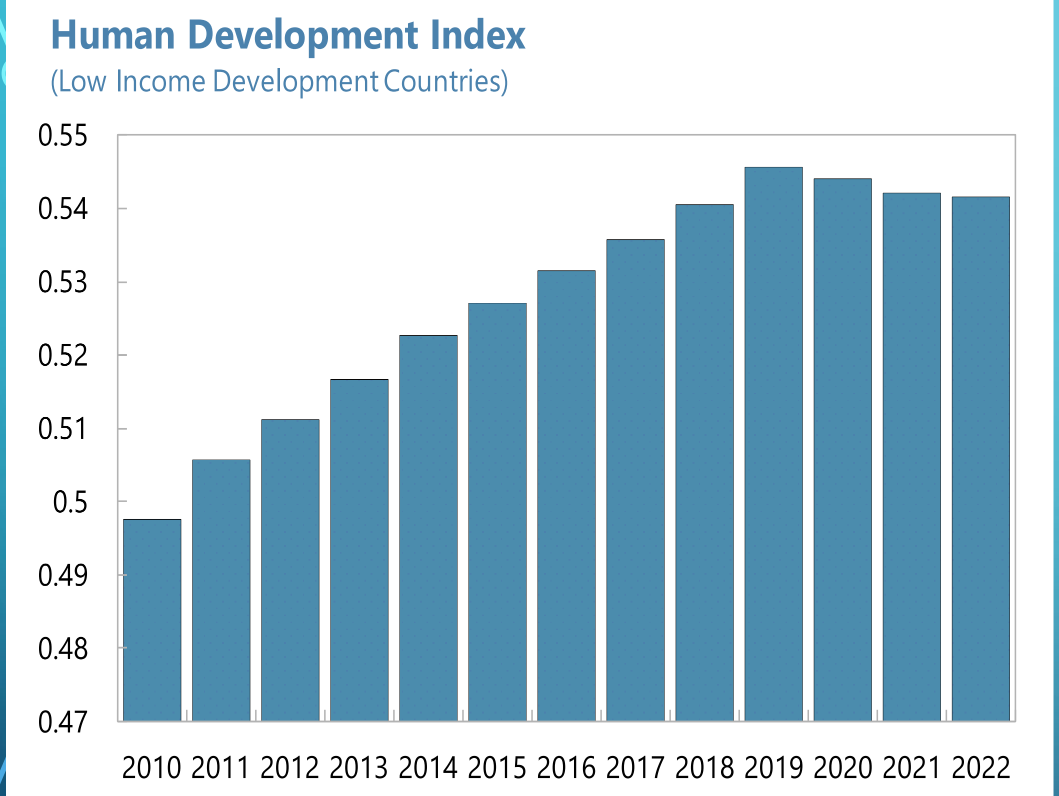
Title…..



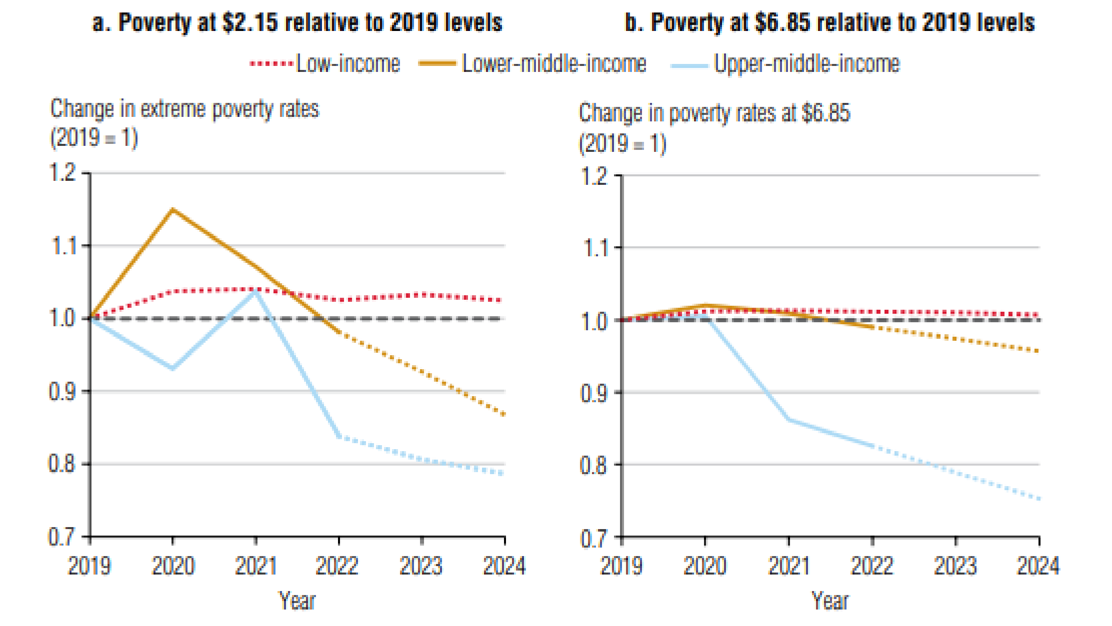
Sources: WEO and Fund staff estimates.
Note: The external debt distress risk rating remains the primary DSF output, while the overall risk rating is considered supplementary information.

Source: 2024 LIC Report

LASTING SOCIO-ECONOMIC IMPACT



Source: UNDP.



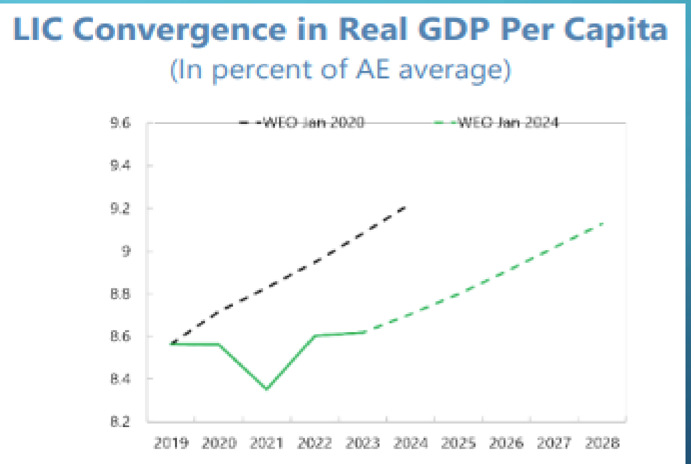
Source: World Bank, Poverty and Inequality Platform (version September 2024), https://pip.worldbank.org/.

Note: Poverty rates are shown relative to 2019 levels for the $2.15 and $6.85 per person per day poverty lines (expressed in 2017 purchasing power parity dollars). The line for low-income countries is dotted because the surveys covered less than 50 percent of the group's population between 2019 and 2022. Poverty rates for 2022–24 are projected based on per capita gross domestic product growth projections in *Global Economic Prospects, June 2024* (World Bank 2024c). High-income countries are omitted because poverty rates at both lines are small. Poverty rates at the $6.85 poverty line did not increase in high-income countries between 2019 and 2024, and changes at the $2.15 poverty line were less than 0.05 percentage points. Income group is kept fixed using the fiscal year 2024 classifications.

Source: World Bank, Poverty, Prosperity and Planet Report 2024

SCARRING FROM THE PANDEMIC

- Scarring is permanent loss of productive capacity, caused by many factors:
  - Deaths and losses in human capital
  - Depletion of savings/assets by hhds and firms that trigger losses
  - Debt overhangs depress lending to the private sector
  - Behavioral changes that affect consumer spending and risk-taking.



1/ Deviation of the actual level from the level projected pre-pandemic.
Sources: WEO (January 2020, January 2024) and Fund staff estimates
Note: Dashed lines indicate projections

Source: 2024 LIC report.

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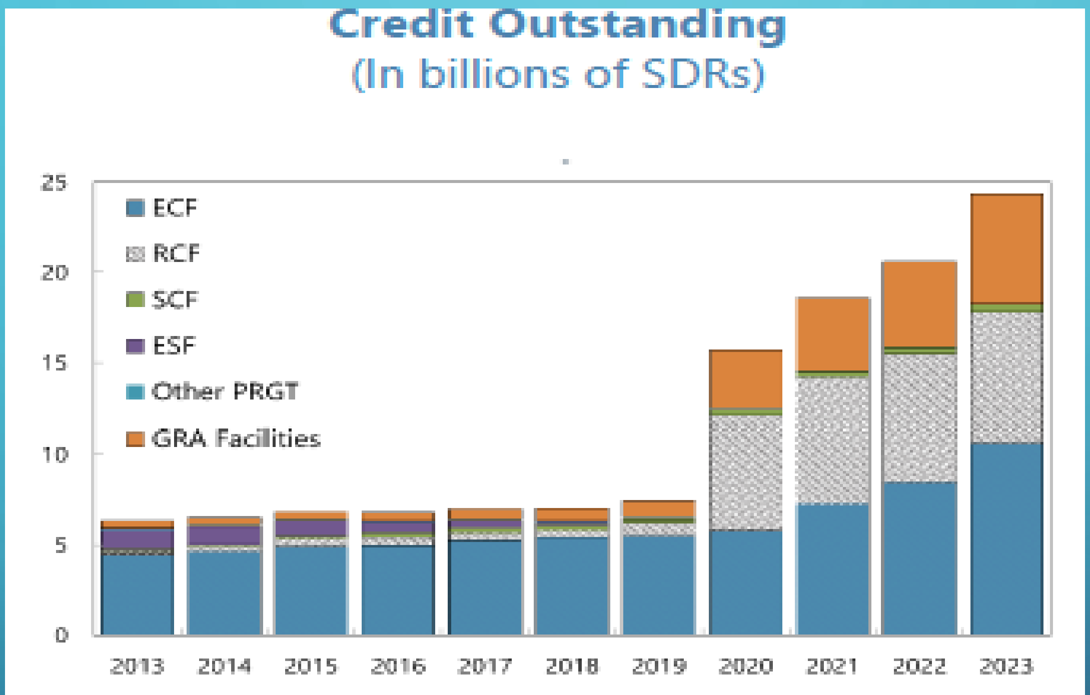
IMF COVID RESPONSE: MODIFICATIONS TO THE PRGT LENDING TOOLKIT AND CCRT DEBT RELIEF

- Streamlining/accelerating internal processes for taking rapid financing facilities to the Board (March-April 2020)
- Increasing annual access to RCF/RFI from 50 to 100% of quota and 150% of quota cumulatively (April 9).
- GRA and PRGT annual and cumulative access limits increased to 200% and 600% of quota, respectively.
- Providing debt service relief to poorest countries through CCRT
- New SDR allocation (effective August 2021)
- New temporary food shock window under RFI/RCF (September 2022)

WHAT DID SDR ALLOCATION MEAN FOR LICS?

- Based on US$650 billion allocation, LICs got US$20.6 bn or the same amount as Italy. Senegal received US$420 million (1.6 % of GDP).
- SDR is unconditional reserve asset, increased gross (not net) reserves
- Possible uses (emphasis on transparency):
    - Stay in reserves
    - Used to replace more expensive debt, pay the IMF or pay domestic arrears
    - Finance additional one-off spending, e.g. COVID-19 vaccines
    - Used to inject liquidity in banking system
- Only 1/3 of LIC SDR allocation kept in reserves, rest used for budget or BOP support.

IMF LENDING TO LICS, 2010-23



Source: 2024 LIC report.

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RESPONDING TO EMERGENCY FINANCING REQUESTS: UPDATING MACROECONOMIC PROJECTIONS

- Iterations between country teams' projections and centralized guidance and common assumptions
- Centralized guidance and projections for commodity prices and financial markets; additional guidance by region
- Overall centralized check to ensure consistency of projections at the global level (Global CAB=0)
- Guidance evolved through crisis, guided by discussions with epidemiologists

MACROECONOMIC PROJECTIONS AT THE IMF

Research department uses global projections model

Country team projections based on model (not always), anchored in financial programming framework:

- Set of 4 key sector accounts: national accounts (real sector), external, fiscal and monetary accounts
- Consistency across sectors ensured through respect of key macroeconomic identities and behavioral links

BASIC IDENTITIES LINKING 4 MAIN SECTORS

- **$Y = C + I + CAB$ and $Y\text{-}C = S$**
- **$CAB = Y - (C+I) = S - I = (SP-IP) + (SG-IG)$**

- **Private sector:** **$IP - SP$ =** $\Delta NDCP + \Delta FIP - \Delta DIG - \Delta M2$
- Public sector: $IG - SG = \Delta DIG + \Delta FIG + \Delta NDCG$
- Monetary: $\Delta M2 = \Delta NDC + \Delta NFA$
- BOP: $\Delta NFA = CAB + \Delta FIG + \Delta FIP$

FLOW OF FUNDS PRESENTATION

	Domestic Sectors				
	Private	**Government**	**Banking**	**External Sector** [1]	**Horizontal Check**
Nonfinancial Transactions	SP - IP	SG - IG		−CAB	0
Government domestic non-banking financing	−ΔDIG	ΔDIG			0
External financing by government		ΔFIG		−ΔFIG	0
External financing by private sector	ΔFIP			−ΔFIP	0
change in net foreign assest of the banking system			−ΔNFA	ΔNFA	0
Change in domestic bank credit	ΔDCP	ΔNDCG	−ΔNDC		0
Change in broad money	−ΔM2		ΔM2		0
Other items, net	−ΔOIN		ΔOIN		0
Vertical Check	0	0	0	0	0

[1] Represents foreign countries, i.e., current account surplus (deficit) of reporting country represents deficit (surplus) of the external sector.

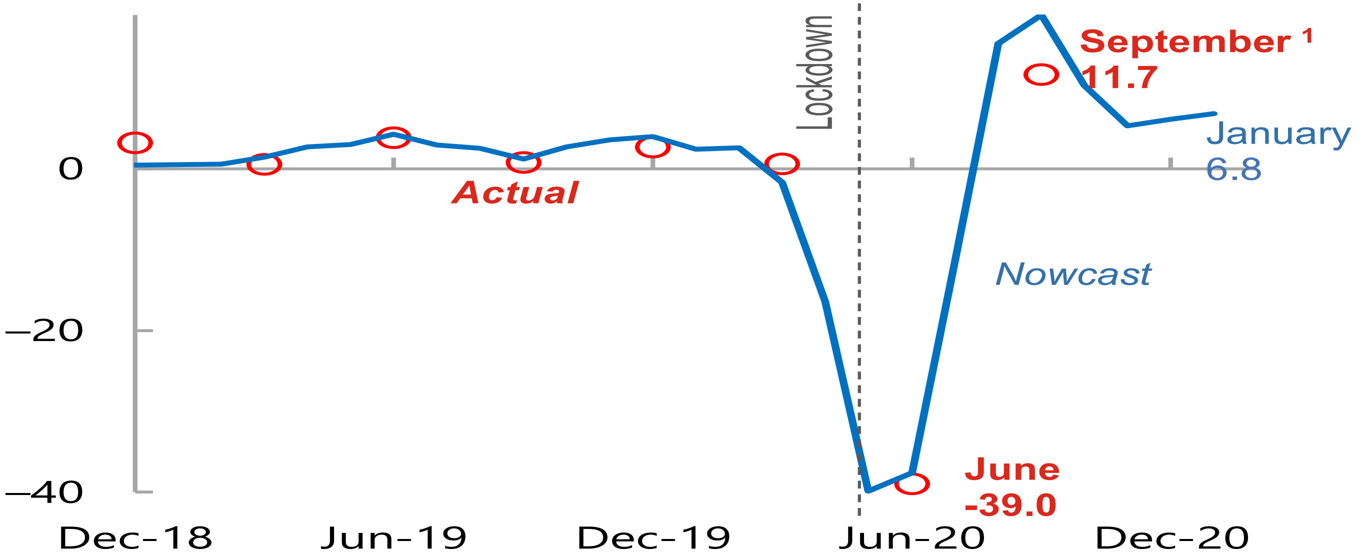
MEASURING THE ECONOMIC IMPACT OF A GLOBAL PANDEMIC IN REAL TIME

- Challenges:
  - Unlike global financial crisis, shock doesn't originate in the economy
  - Very high uncertainty associated with the health shock
  - Initial response to the health crisis made the economic impact worse, reopening economies allowed pandemic to spiral back out of control
  - Health crisis compounded by other shocks
- Solutions:
  - Look at other similar historical events and main transmission channels: SARS, Ebola
  - Consult epidemiologists on likely evolution of the virus
  - Use stringency of lockdown measures as predictor for drop in activity
  - Prepare various scenarios
  - Nowcasting: using big data and machine learning

MEASURING THE ECONOMIC IMPACT OF THE CRISIS IN REAL TIME IN SSA : NOWCASTING

- AFR nowcast: exploits historical (possibly non-linear) statistical patterns to predict year-on-year real GDP growth in this instance

Sub-Saharan Africa: Real GDP Growth, Data and Nowcasts, 2018–21
(Percent, rolling quarter-on-quarter annualized)



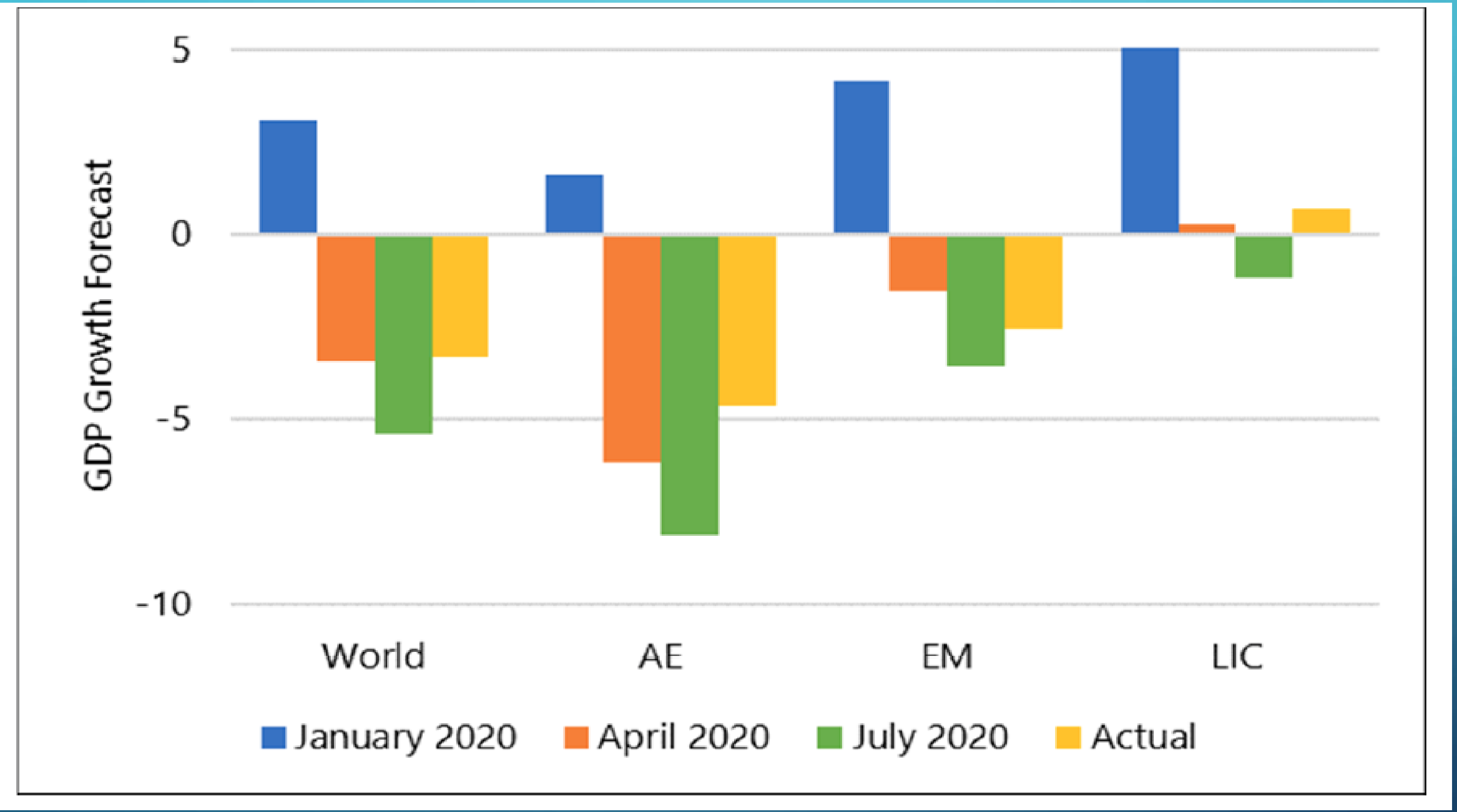
Sources: Haver Analytics; country authorities; and IMF staff calculations.
[1] Estimate.

"BACK OF THE ENVELOPE" CALCULATIONS: SENEGAL'S EXAMPLE

Summary Results: Growth impact compared to baseline January 2020

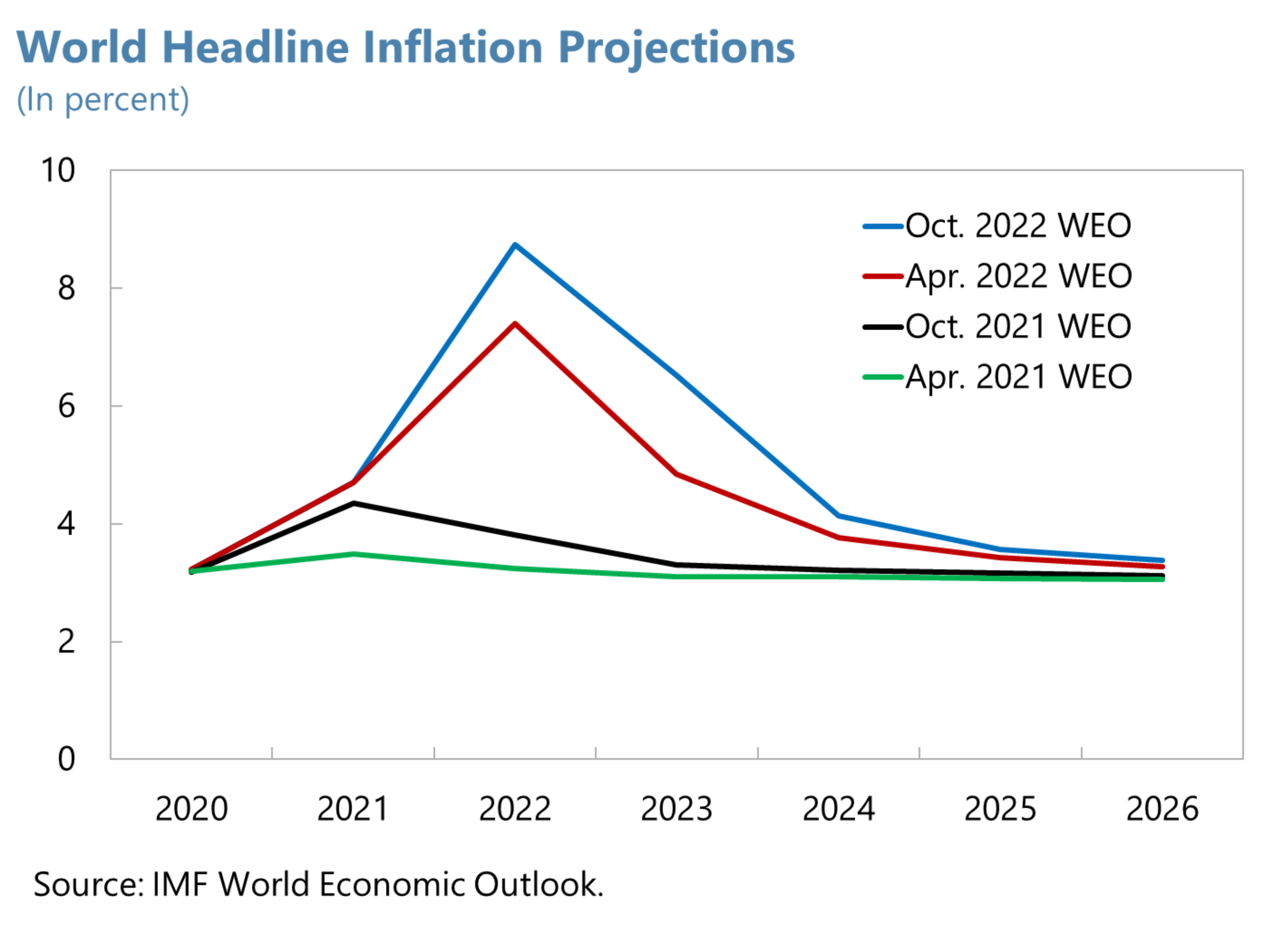
Channel	Shock	Impact on baseline growth
Terms of Trade	+4 pp (compared to Jan 2020)	0.2 to 0.6
External Demand	-1.2 pp growth in trading partners	-0.4 to -0.6
Import and supply chains		unknown
Remittances	-1.5pp growth in host countries	-0.1 to -0.2
Tourism	Tourist decline of 10 percent	-0.3 to -0.4
External financial conditions	(non-oil) FDI decline of 15 percent	-0.1 to -0.2
Sum external factors		-0.3 to -1.2
Domestically sourced factors	top down guidance	-0.3
Sum Total		-0.6 to -1.5

HOW REALISTIC WERE THE IMF'S 2020 GROWTH FORECASTS?



Source: Lounghani and others, 2023 (see IEO report).

HOW REALISTIC WERE THE IMF'S 2021-22 INFLATION FORECASTS?



WHY DID IMF FORECASTS MISS THE 2021 INFLATION SURGE?

- Larry Summers, Olivier Blanchard predicted this:
  - https://www.washingtonpost.com/opinions/2021/02/04/larry-summers-biden-covid-stimulus/
  - https://www.piie.com/blogs/realtime-economic-issues-watch/defense-concerns-over-19-trillion-relief-plan
  - https://www.washingtonpost.com/opinions/2021/05/24/inflation-risk-is-real/
- Faster-than-anticipated demand rebound in all countries compared with predictions of remaining slack
  - Role of unprecedented large fiscal stimulus packages (particularly in AEs)
- Shift in demand from services towards goods
- Supply constraints, including tight labor markets (were we looking at wrong indicators?)
- Overall, shift in slope of Phillips curve -steeper than pre-pandemic

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EMERGENCY PROGRAM DESIGN I: SOURCE AND SIZE OF THE BOP NEED DUE TO COVID-19 SHOCK

COVID and food price shocks had large impact on LICS:

- BOP: impact of shock on goods and services trade (includes tourism), remittances, FDI, portfolio flows

    ➔change in reserves

- Fiscal accounts: impact of shock on revenue, expenditure, and public debt

→Temporary large increase in BOP and fiscal financing needs

Look at impact of shock before any domestic adjustment

EMERGENCY PROGRAM DESIGN I: HOW DOES THE IMF DETERMINE A BOP NEED?

- Can arise from above-the line deficit (mostly from current account)
- Can arise from need to raise inadequate reserves (linked to above)
- Can be present, prospective or potential, urgent if failing to address it would lead to immediate and severe economic disruption.
- Due to external or domestic developments?

EMERGENCY PROGRAM DESIGN I: HOW DOES THE IMF DETERMINE A BOP NEED: SENEGAL EXAMPLE

Table 8. Senegal: External Financing Requirements and Sources, 2019–22
(Billions of CFAF)

	2019	2020	2021	2022
	Est.	Proj.		
External Financing needs	**1556**	**1449**	**1767**	**1731**
Current account balance (excluding grants)	1311	1684	1830	1503
Repayment to the IMF	13.1	2.6	0.0	0.0
Change in net foreign assets	138	-238	-63	228
Errors and Omissions	93	0	0	0
External Financing sources [1]	**1556**	**1083**	**1767**	**1731**
Capital transfers	221	273	292	312
Foreign direct investment (net)	513	665	784	756
Portfolio investment (net)	61	-40	160	146
Other investment (net)	712	136	482	465
Grants	49	48	49	52
Financing gap	**0**	**366**	**0**	**0**
Expected financing	**0**	**263**	**0**	**0**
IMF (RCF-RFI) [2]	0	263	0	0
Residual gap	**0**	**103**	**0**	**0**

Sources: Senegalese authorities; and IMF staff estimates and projections.
[1] Excluding expected financing related to the COVID-19 pandemic.
[2] Assumes access of 100.0 percent of quota in April 2020 as one-time disbursement.

Source: IMF Country Report N.20/108.

EMERGENCY PROGRAM DESIGN I: HOW DOES THE IMF DETERMINE SIZE OF FINANCING

- Size of the actual or potential BOP need (within normal or exceptional GRA/PRGT access limits)
- Strength and quality of the program: country's own effort to adjust
- Capacity to repay the Fund
- Outstanding IMF credit and track record of past use of Fund resources
- Catalytic role of IMF financing, doesn't cover full financing need (typically one-third): burden-sharing with other donors

EMERGENCY PROGRAM DESIGN III: CLOSING THE FINANCING GAP - POLICIES

- Closing financing gap involves mix of external financing and domestic policies. Getting balance right key to program success
- Large temporary shock: allow fiscal deficit to increase
- By how much fiscal deficit increases depends on fiscal space: debt sustainability analysis. Then assess ability to reallocate non-priority spending
- Other vulnerabilities? Low reserves, exchange rate misalignment, financial stability

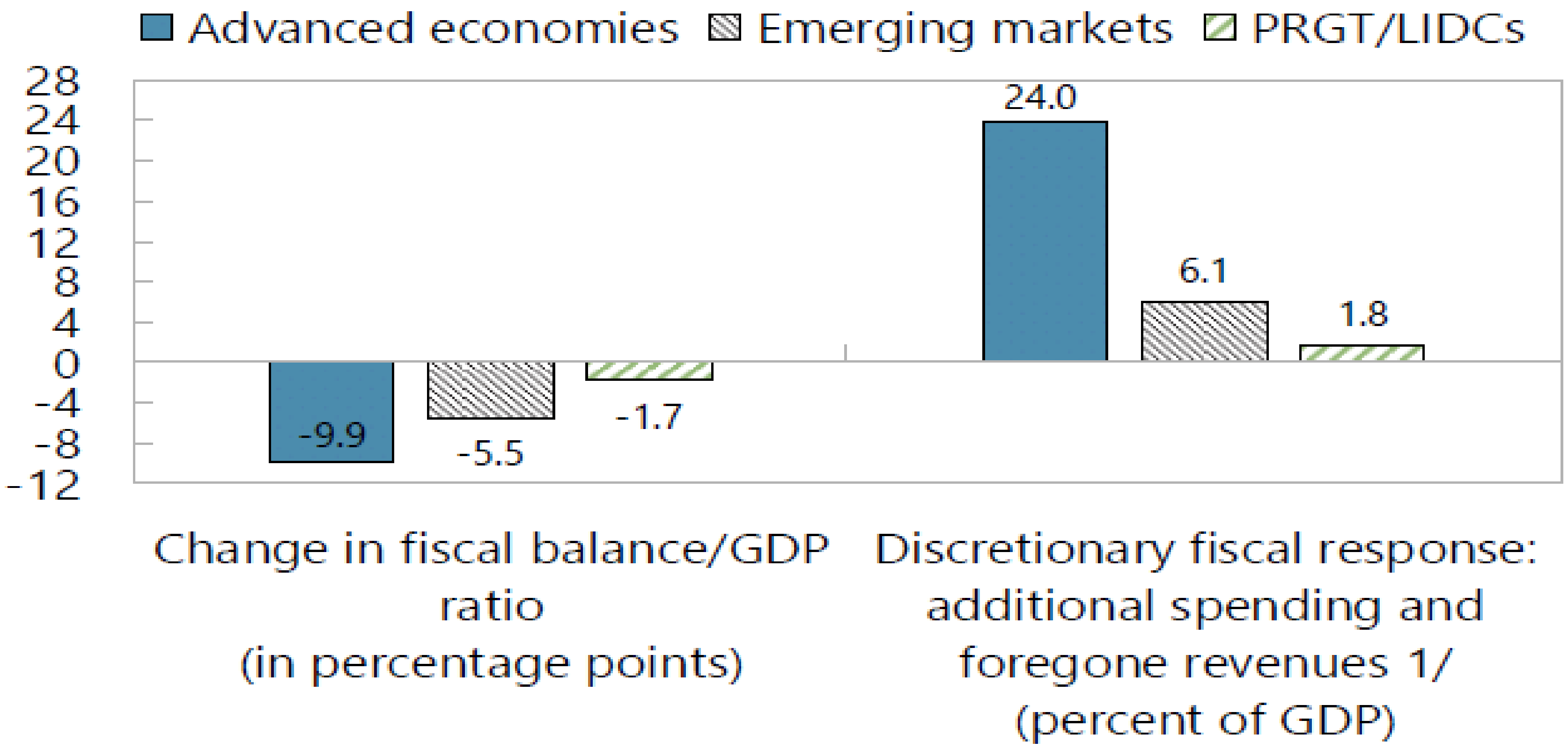
EMERGENCY PROGRAM DESIGN II: MEDIUM-TERM OBJECTIVES

- Unwinding the BOP need, forecast trajectory of key macroeconomic aggregates taking into account policy response
- Converging towards sustainable medium-term growth, CAB, fiscal deficit consistent with debt sustainability
- No repeated access to emergency financing: if recurrent actual, protracted or potential BOP need → other Fund lending instruments (ECF, SCF/SBA)

FISCAL POLICY RESPONSES TO THE COVID-19 SHOCK

- Fiscal response at the forefront:
  - ➔**Health** spending increased: containment and mitigation
  - ➔Targeted support to affected **firms/sectors**: conditional (keep workers on payroll) or unconditional tax breaks; subsidies
  - ➔Support to **households**: unemployment benefits, emergency cash transfers or food distributions, subsidies of utility bills
  - ➔Need to reach informal firms and workers
- IMF advice: protect lives, ensure support is TTT, but do not withdraw support too soon.
- Accountability: “Do whatever it takes but keep the receipts”

LICS EMERGENCY COVID RESPONSE CONSTRAINED BY LIMITED FISCAL SPACE



Sources: IMF, Fiscal Monitor and WEO databases; and staff calculations.
1/ Including the provision of equity, loans, and guarantees.

MONETARY AND EXCHANGE RATE POLICIES

- Acomodative monetary policy to support fiscal response:
  - ➔Interest rate cuts/lowering of reserve requirements
  - ➔Liquidity injections (lower refinancing rates, expanded access to refinancing windows)
  - ➔Unconventional responses: asset purchases
  - ➔Relax macro-prudential policies
- Allow exchange rate to depreciate
  - ➔ Depends on size of capital outflows and reserves buffers

FINANCIAL SECTOR AND OTHER POLICIES

- Support private sector credit
  - ➔Full or partial credit guarantee schemes (Senegal)
  - ➔Expand/lower cost of mobile banking (Kenya, WAEMU)
  - ➔Repayment of government arrears (Senegal)
- Maintain financial sector stability
  - ➔Regulatory forbearance (lower capital, provisioning requirements, deferred credit repayment, delay NPL classification etc)
- Digital solutions as transversal theme

PROGRAM CONDITIONALITY

- Disbursements under RCF/RFI carry no ex-post conditionality, some times prior actions if deemed absolutely critical
- Policies to address the crisis have to be Targeted, Timely and Temporary (easy to roll back post-crisis)
- Commitments to ensure good governance of additional COVID-19 spending

GOVERNANCE CONSIDERATIONS IN EMERGENCY COVID-19 FUND SUPPORT

- Sizeable external support to LIDCs to fight the pandemic
- Extraordinary focus on governance of COVID-19 spending
- Introduction of (1) specific commitments in countries' letters of intent for emergency reports; (2) prior actions if warranted; (3) governance measures in subsequent program engagement
- Governance commitments focus on:
  - ➔Publish procurement contracts
  - ➔Collect and publish list of procurement contracts' beneficial owners
  - ➔Conduct and publish audits of COVID-19 spending
  - ➔Other measures

IMF RESPONSE AND POLICY ADVICE: CRITICS

- Oxfam policy tracker: too much austerity, not enough on governance of COVID-19 spending
- https://www.oxfam.org/en/blogs/virus-austerity-covid-19-spending-accountability-and-recovery-measures-agreed-between-imf-and

- CSIS: less money for LICs
- https://www.csis.org/analysis/international-financial-institutions-covid-19-approvals-decline-even-g20-leaders-call

IS IMF SUPPORT TO LICS EFFECTIVE?

- It depends…

  … on how we measure impact, and

  … on what type of support we are looking at.

- Short-term IMF financial support in times of crisis effective in improving short-term macroeconomic outcomes (Bal Gündüz, 2016), longer-term IMF engagement also effective (Mumssen et al., 2013).
- IMF policy advice matters, beyond financial support (Newiak and Willems, 2017).
- Vast literature looking at other aspects (conditionality, social spending) and aid effectiveness more generally (see Arndt, Jones and Tarp, 2015).

WAS IMF COVID-19 RESPONSE EFFECTIVE?

- IEO evaluation found that IMF EF covered on average 10-15% of EMs and LICs financing needs, respectively. LICs receiving UCT financing got 25-35% of their needs covered.
- Also find some evidence of catalytic role of Fund, more so for MIDCs.
- Fund financing may have allowed for higher consumption and growth than in countries that requested but did not obtain EF. Those that also got non-emergency program support did better.

WHAT NEXT?

- Current outlook still highly uncertain and volatile, particularly for LICs
- Fiscal space is running out, debt vulnerabilities high
- Several countries "stuck" with no Fund support because debt is unsustainable → shortcomings of G-20 common framework for debt restructurings
- LICs should aim at rebuilding policy buffers (revenue and expenditure policies, PFM and structural reforms, monetary policy) & international community should do more to help.

OUTLINE

1. LIDC context pre-COVID, Role of the IMF
2. **The Economic and Social Impact of the COVID-19 Pandemic**
3. **The IMF Response : Economic Projections, Financing, and Policy Advice**
4. **Senegal Case Study**

SENEGAL CASE STUDY: CONTEXT

Senegal pre-COVID:

- Stable democracy
- High and sustained growth of about 6 percent for 2015-19
- Aims at reaching emerging economy status by 2030 (Plan Senegal Emergent)
- New 3-year PCI approved in January 2020

Senegal's COVID response:

- Initially fast and decisive health response, successful in curbing COVID spread through end-October 2020; rapid implementation of economic support measures
- Requested IMF financial support early
- Moved to recovery mode too early: 2nd COVID wave

SENEGAL CASE STUDY: GUIDELINES

- March 2020: Senegal requests emergency financing from IMF
- You are the IMF team. Your tasks are :
  - ➔Update macroeconomic projections with COVID-19 impact
  - ➔Assess size of BOP and fiscal financing gap
  - ➔Propose/justify level of access to Fund financing, approach other development partners
  - ➔Present your policy brief for internal review
  - ➔Describe discussions with authorities including authorities' perspectives on proposed policies
  - ➔Present final financing and policy package to IMF Executive Board (Staff report)

THANK YOU FOR YOUR ATTENTION!

SUPPLEMENTARY SLIDES

GRA LENDING TOOLKIT

	Signaling (PCI)	Crisis prevention and resolution (FCL, PLL, and SBA)	Addressing protracted BoP needs (EFF)	Emergency assistance (RFI)
BOP need	No need	Actual or potential	Actual (potential in exceptional circumstances)	Actual and urgent
Duration of arrangement	Relatively short (but flexible)	Relatively short (up to 3 years)	Medium (up to 4 years)	Outright purchase
Access	No access	Uncapped (FCL, SBA) or capped (PLL)	Uncapped	Low access, capped
Conditionality	UCT, ex-post	FCL: Ex-ante only (i.e. pre-qualification) PLL: Ex ante, very focused ex-post UCT SBA: UCT, ex-post, focused on macro-critical areas	UCT, ex-post, focused on structural reforms	Prior actions only, no ex-post, no UCT required

CCRT: A SHORT HISTORY

- Calls for **cancelling Haiti's debt** following Jan.10, 2010 earthquake.
- Post-Catastrophe Debt Relief Trust (July 21, 2010) to provide debt relief to help meet exceptional BOP need following catastrophic disaster.
- Restricted to: poorest countries, 1/3 population affected AND destroyed more than a ¼ of productive capacity OR caused damage >100% of GDP.
- 2014-15 **Ebola crisis**: pandemic window added, renamed Catastrophe Containment and Relief Trust (CCRT). US$100 mio in grants.
- Reforms to CCRT in response to COVID-19 (April 2020-22): **two-year COVID-related debt service relief grants**, cumulative debt service relief of about SDR 690 million (US$ 964 million). 5th tranche approved in Dec. 2021.

IMF RESPONSE TO FOOD PRICES CRISIS: NEW TEMPORARY FOOD SHOCK WINDOW UNDER RCF/RFI

- For countries facing urgent BOP pressures associated with the global food shock and where a UCT-quality program is not feasible or not necessary.
- 12-month window from date of establishment (Sept. 2022)
- Low-access : capped at 50 percent of quota
- Use of the food shock window: Ukraine (2x), Malawi, Tonga

G-20 DEBT SERVICE SUSPENSION INITIATIVE (DSSI) AND COMMON FRAMEWORK FOR DEBT TREATMENTS

- G-20 communique: suspension of debt service for x eligible countries between May and December 2020
- 45 eligible countries benefited from US$5.7 bn debt service deferred.
- Extended into Jan-June 2021 (possibly full year), 27 countries asked for the extension.
- Requirements: IMF program or request, transparency in debt data provision
- Common framework for debt treatments: goes beyond DSSI for countries with unsustainable debt and who need debt restructuring
- Both DSSI and Common Framework welcome initiatives but complicate communication with private investors for frontier markets