Box 3.1

THE IMF's FINANCIAL RESPONSE TO THE COVID-19 CRISIS

The IMF reacted swiftly and forcefully to the health emergency triggered by COVID-19, as well as to the crisis resulting from the confinement of a large part of the world population and from broad economic sectors having come to a global standstill. Its initial response was mainly geared towards the economies that were most vulnerable from a healthcare standpoint, but also towards the emerging economies that were potentially more affected by the capital outflows that took place in certain regions.

The support measures adopted by the IMF focused mainly on boosting emergency financial assistance on a temporary basis, as well as providing debt relief for the most vulnerable low-income countries and short-term liquidity through a new credit line.[1] At the cut-off date of this Report, the Fund had not yet decided whether to supplement these measures with a general allocation of its own currency, the special drawing rights (SDRs), distributed proportionally among all its members.

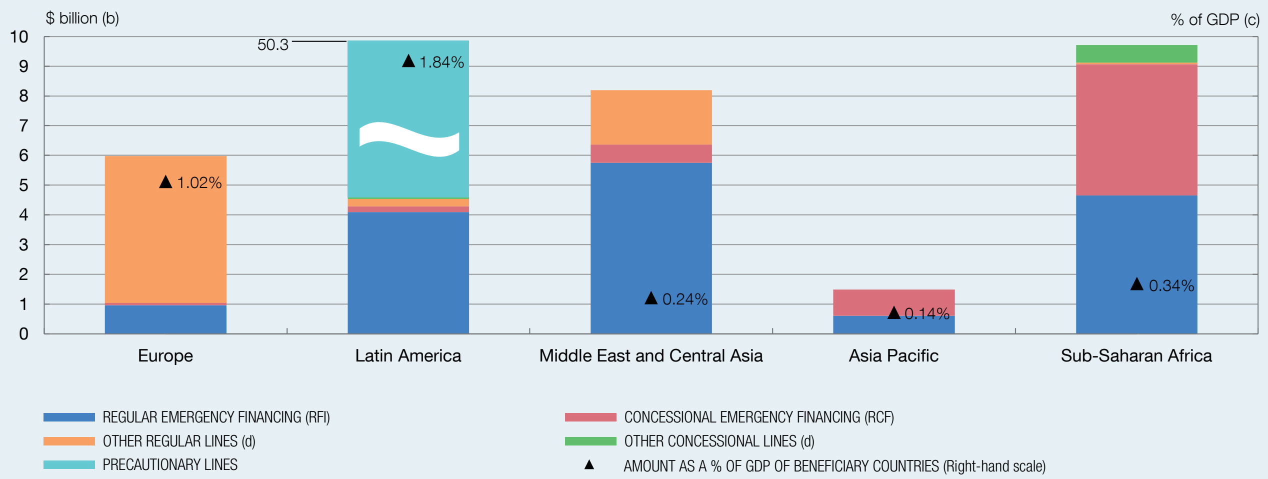
As regards emergency financial assistance, the IMF has approved raising the access limits to its emergency facilities, namely the Rapid Financing Instrument (RFI), available to all Fund members, and the Rapid Credit Facility (RCF), a concessional instrument limited to low-income countries only. Specifically, the annual access limit for the lines has been increased from 50% to 100% of the country quota in the IMF, and the cumulative limit from 100% to 150%, for an initial period of six months, which may be extended. Neither of these instruments requires the application of an economic programme nor compliance with conditionality.

To date the IMF has received requests for emergency financial assistance from around 100 mostly low-income countries and has approved aid amounting to nearly $70 billion, a figure which is expected to continue rising. Chart 1 shows all the financial – not only emergency – assistance, by region, granted by the IMF since the onset of the pandemic until the cut-off date of this Report.

As regards debt relief for the most vulnerable low-income countries, the IMF has adapted the Catastrophe Containment and Relief Trust (CCRT) to the new global pandemic scenario. The trust is supported by voluntary

Chart 1
IMF FINANCIAL ASSISTANCE APPROVED FROM THE ONSET OF THE PANDEMIC (a)

ABSOLUTE AND RELATIVE VOLUME OF FINANCIAL ASSISTANCE TO EACH REGION



SOURCE: Devised by authors based on IMF data.

a Including loans approved up to 10 June.
b Exchange rate as at 1 June.
c 2019 GDP according to WEO, April 2020.
d New loans and augmentation of access under previous lines.

1 See *Communiqué of the Forty First Meeting of the International Monetary and Financial Committee (IMFC),* 16 April 2020.

contributions from its members and aims to help the most vulnerable countries free up financial resources to channel them to strengthening their emergency health systems and assistance. The IMF has also green-lighted the immediate forgiveness of debt maturities in 25 out of the 33 countries covered by the CCRT, mostly in Sub-Saharan Africa, amounting to $215 million, over an initial six-month period ending in October. This period may be extended up to a maximum of two years, subject to the availability of trust resources. To this end, the IMF has opened a round of fund-raising to generate approximately $1 billion for the CCRT. In connection with concessional lending, the Fund has also launched a new round of fund-raising for loans and subsidies under the Poverty Reduction and Growth Trust (PRGT) of approximately $19 billion.[2] Lastly, in parallel with the CCRT reform, the IMF and the World Bank issued a joint statement to the G20 calling on official bilateral creditors to suspend debt payments from low-income countries that request a moratorium (see Section 3.2 of this Report).[3]

As regards the provision of short-term liquidity, the IMF has created a new credit line called Short-term Liquidity Line (SLL) to provide liquidity to (mainly emerging) economies with strong economic fundamentals, but subject to moderate balance of payments pressures.[4] The SLL sets the same access criteria as the precautionary Flexible Credit Line (FCL), financing for up to 145% of the country quota, a duration of one year (with indefinite renewals), revolving access and more favourable financial charges than the rest of the Fund's credit lines.[5] This instrument will contribute to enhancing the Fund's role in the global financial safety net, particularly insofar as it will be able to provide liquidity to economies outside the network of swap lines provided by the main central banks. The Fund's first estimates point to a potential demand for approximately $50 billion, although no request has been made at the date of this Report. The SLL will be reviewed in five years and, if not renewed, it will expire in seven.

An additional support measure for all IMF members is the possible issuance by the IMF of SDRs[6] amounting to $500 billion, which would be allocated to all the members on the basis of their shares in the IMF quotas. This is an option that has been repeatedly discussed in the Fund, and implemented during the global financial crisis, but which still lacks sufficient support for its approval. SDR issues aim to cover very high long-term global liquidity needs to supplement the aggregate volume of existing reserves. Countries opposing this measure argue that there is no structural lack of liquidity as envisaged by the Fund's Articles of Agreement in order to launch a new issue. They also highlight the scant use of the SDRs issued in 2009 in the wake of the global financial crisis, the fact that SDRs entail additional financing with no conditionality associated or that the SDR market is shallow and narrow. As they are allocated to IMF members on the basis of their quotas in the Fund, the bulk of the issues goes to advanced countries and emerging economies that generally already have fully convertible reserve assets. In the current setting, around 52% of the issue would be allocated to these countries and only 3.3% of the remaining 48% would be allocated to low-income countries. A solution to correct this asymmetry is that surplus SDR economies could voluntarily pledge these surpluses for the grant of IMF concessional loans. The outcome of the crisis and its effect on global liquidity will ultimately determine the decision of whether or not to issue SDRs over the next quarters.

The COVID-19 crisis has revived the public debate on the sufficiency of the IMF's resources. Its current lending capacity is around $1 trillion. Of this amount, 45% relates to membership quotas, 20% to funds from the New

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2 Against this background, the Banco de España has pledged SDR 750 million (around $1 billion) to the PRGT managed by the IMF, to grant concessional loans to low-income countries.

3 See *Joint Statement World Bank Group and IMF—Call to Action on Debt of IDA Countries, 25 March 2020.*

4 See International Monetary Fund (2020). "IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net", Policy Paper No 20//025, April.

5 Other differences with respect to the SLL are that the FCL covers all types of external imbalances, has no access limit and may be in place for up to two years following an interim annual review. The IMF trusts that, in certain cases, the SLL may serve as an instrument to facilitate exiting a pre-existing FCL.

6 The IMF created the SDR in 1969 as an international reserve asset to supplement gold and US dollars. The SDR is neither strictly a currency nor a claim on the IMF, but rather a claim on currencies considered to be freely usable, as well as being the unit of account of the IMF and other international organisations. SDRs can only be held and used by IMF member countries, by the IMF itself and by certain prescribed organisations. The IMF allocates SDRs unconditionally. General SDR allocations are made in proportion to member countries' IMF quotas. The IMF reviews the long-term global liquidity situation at least every five years and, in this context, decides whether a new general allocation is to be made. General SDR allocations have only been made three times; in addition, there has been a special one-time allocation made for equitable reasons. The IMF's Articles of Agreement also allow for cancellation of SDRs, but this provision has never been used.

Box 3.1

THE IMF's FINANCIAL RESPONSE TO THE COVID-19 CRISIS (cont'd.)

Arrangements to Borrow (NAB) and 35% to bilateral borrowing agreements of the IMF with certain members. The NAB constitutes the second line of defence to satisfy the demand for IMF funding, after the quotas, and the bilateral agreements the third one. At the cut-off date of this Report, around 80% of the Fund's lending capacity was not committed and its liquidity, calculated for a one-year horizon, stood at $225 billion and was supported solely by the quotas. However, an increase in the demand for ordinary lending, in conjunction with the approval (and future disbursement) of SLL lines might require activating NAB and, subsidiarily, bilateral borrowing.

In principle, the IMF's current resources should be sufficient to satisfy the projected demand for loans. However, owing to the gravity of the crisis and the still high uncertainty on how it evolves over the next quarters, more extreme scenarios in which, additionally, a significant number of IMF member countries might be reluctant to increasing the Fund's resources cannot be ruled out. In this connection, it should be noted that a change in the composition of the IMF's external financing was scheduled for January 2021, with a doubling of the NAB and a retrenchment in bilateral loans to practically one half, which would leave its total size practically unchanged. However, part of IMF membership, particularly the more dynamic emerging economies, continue to claim a decisive quota increase, both to underpin the Fund's lending capacity and to correct their underrepresentation in the institution.