The IMF Expands and Expedites Lending in Response to the COVID-19 crisis

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Original post here.

Since March, the International Monetary Fund (IMF) has expanded existing lending programs and introduced new ones to help countries bear the costs of the COVID-19 crisis. As of April 21, it had approved a total of $8.7 billion in emergency financing for over 40 member countries, of the more than 100 countries that have requested assistance. (See the updated list here).

But those outlays represent a small fraction of what the IMF expects countries will need. Emerging markets will need at least $2.5 trillion in financing needs. The IMF has committed to utilize its current lending capacity of $1 trillion to support their member countries.

Prior to the crisis, the IMF had various lending facilities to help countries facing temporary shortfalls in their balance of payments. On April 15, the IMF announced a new revolving credit line, the Short-term Liquidity Line (SLL), to help eligible countries with moderate short-term balance of payments needs. It also revamped its Catastrophe Containment and Relief Trust (CCRT), which helps low-income countries bear the costs of natural disasters and public health emergencies.

About 50 of the initial emergency requests came from low-income countries; 31 from middle-income countries. Starting in early 2020, emerging markets have seen large capital outflows, shortages in foreign exchange liquidity, and declines in commodity prices. In its April 2020 World Economic Outlook, the IMF forecasts a global recession in 2020 of a 3% decline and a rebound in 2021 of 5.8% economic growth.

Existing IMF lending facilities include:

- The Flexible Credit Line (FCL), which is uncapped in principle and provides large-scale financing without policy conditions for members with sustained track records of strong policy implementation.
- The Rapid Credit Facility (RCF), which provides financial assistance with limited conditionality to low-income countries facing an urgent need for balance of payments.
- The Rapid Financing Instrument (RFI), which is available to all members facing an urgent need for balance of payments.

Under the RCF and RFI, members are allowed to borrow up to 50% of their quota. The RCF lends at very low interest rates and provides a longer repayment period. The IMF has said that to be eligible for emergency financing, members need to commit to target health policies to combat the COVID-19 pandemic and to remain on a sustainable debt path.

Funds disbursed through April 21 include:

- $2.5 billion for 14 countries under the RCF. The largest recipient is Ghana with $1 billion.
- $5.8 billion for 15 countries under the RFI. The largest recipient is Pakistan with $1.4 billion.

- $240 million for 24 countries under the CCRT. The largest recipient is Guinea with $24.1 million.

April 15 announcements

On April 15, the IMF's Executive Board approved immediate debt service relief to 25 members under its revamped Catastrophe Containment and Relief Trust (CCRT), which was established in 2015 during the Ebola crisis. The revamp expanded the qualification criteria for the facility, which is available to low-income countries and allows the IMF to deliver grants for debt relief during catastrophic natural disasters and major public health emergencies. The IMF had asked the stronger members to help replenish the CCRT, which had only $200 million at disposal. The UK, Japan, and China have already made commitments to contribute.

Also on April 15, the IMF established the Short-term Liquidity Line (SLL). The new facility will operate on a revolving basis as a renewable backstop for eligible member countries. The design of the new SLL aims to address potential, moderate, and short-term balance of payments needs. It provides a reliable and renewable credit line, without ex post conditionality and has a qualification criteria in-line with the FCL to ensure that the facility is mainly used by members with very strong macroeconomic fundamentals and track record of strong policy implementation. The SLL can provide financing for up to 145% of each member's quota. Managing Director Kristalina Georgieva said that "the SLL will strengthen further a country's liquidity buffers and thus help in managing liquidity pressures. Complementing other instruments during the current crisis, the facility will fill a critical gap in the Fund's toolkit and help to facilitate a more efficient allocation of resources."

The SLL builds on the framework of the Short-term Liquidity Swap (SLS) discussed by the IMF Board in 2017. At the time in 2017, the SLS did not secure consensus necessary for implementation. Although most Directors considered the SLS to be broadly reasonable, a number of Directors had reservations about some key features that, in their view, "depart significantly from current Fund principles and policies, and hence warrant further reflection." The SLL aims to further support the Global Financial Safety Net (GFSN). The GFSN comprises international reserves, central bank bilateral swap arrangements, regional financing arrangements, IMF resources, and market-based instruments. It aims to provide insurance against crises, supply financing when crises hit, and incentivize sound macroeconomic policies The SLL has a 12-month repurchase obligation and a fee structure to support its revolving nature (e.g. 8 basis points to set up). The IMF estimates that overall SLL demand could reach up to $50 billion.

The IMF is composed of 189 member countries. A quota is assigned to each IMF member based on its relative position in the global economy. Member quotas are the main source for IMF's members financing. Additionally, through the New Arrangements to Borrow (NAB), a number of members lend to the IMF and supplement IMF financing in order to cope with shocks to the global monetary system. Under the recently passed CARES Act, the U.S. Treasury may expand the New Arrangements to Borrow (NAB) it can provide to the IMF through loans for up to $28.2 billion. During the 2007-09 Global Financial Crisis, through strong efforts by the G-20, the IMF tripled its lending capacity to $750 billion. Since then, it has expanded its mandate to play a more active role in preventing and fighting crises and preserving financial stability.