Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries

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Marching Orders: Flattening the Pandemic and Recession Curves

(a) Flattening the Pandemic Curve

1. Global Public good: strong positive externalities
2. Feedbacks from macro policies to health policies.

(b) Flattening the Recession Curves
EMs and LICs: Four Observations

1. **Financial Time > Pandemic Time > Macro Time.**

2. **Macro**: limited fiscal and institutional capacity

3. **Pandemic**: Staggered (first wave). Negative feedback from macro.

4. **Financial**: Mother of all sudden stops.
   - Repricing of risk, but also policies to flatten the curve in AEs.
   - Wave of Sovereign Defaults looming on the horizon.
EMs Gross Capital Outflows

Non-Resident Portfolio Flows to EM

Stress Episodes for Capital Flows

Accumulated non-resident portfolio flows to EM since indicated date, in $ bn

Source: Haver, IIF

Source: IIF daily capital flows tracker
What to Do?

Key observation: To be contained anywhere, the virus needs to be contained everywhere.

1. **Pandemic**: Staggered, so re-deploy health capacity. *International COVID brigade* Coordinated by WHO.

2. **Financial**: Need for financial relief. Increase the size of Global Financial Safety Net (> $2.5 trillion).
   - Fed Swap Lines + FIMA facility to provide dollar liquidity
   - Increase IMF firepower: *Pandemic Loans*
   - Immediate relief: *Debt Moratorium* for all EMs and LICs, private or official creditors. Mobilizes > $1 trillion. Gourinchas and Hsieh (2020)

3. **Macro**: If steps above are implemented, we can avoid very disruptive macro policies (monetization, financial repression...) likely to set these countries way back in the longer run.

Danger: that AEs may not have the bandwidth to do what is necessary.