Insight

The International Response to COVID-19

JACQUELINE VARAS | APRIL 14, 2020

Executive Summary

- In addition to significantly harming the U.S. economy, COVID-19 threatens to shrink the global economy.
- In response, nations around the world have instituted similar measures to what the United States has done, such as cash transfers, loan guarantees, lower interest rates, and expanded welfare programs.
- International organizations also have a vital role to play; they are working to dispatch emergency aid for health spending and to support local economies, with their aid mostly targeted to the poorest populations.

Introduction

In response to the massive economic disruptions caused by COVID-19, the United States enacted the largest single fiscal intervention in its history – a $2 trillion stimulus package including direct cash assistance, small business loan assistance, wage replacements, and enhanced welfare benefits amounting to 10 percent of U.S. gross domestic product (GDP). In addition, the Federal Reserve lowered the federal funds rate to zero and purchased over $1.7 trillion of assets to inject cash into the economy. This speedy and significant intervention was certainly warranted given the economic projections. In the second quarter of 2020, the U.S. economy is expected to contract over 30 percent. The Federal Reserve Bank of St. Louis further projects that the unemployment rate may reach 32 percent.

The United States, however, is not the only country at risk. Globally, the United Nations (UN) estimates that the pandemic could destroy 25 million jobs, reduce foreign direct investment by 30 to 40 percent, and decrease labor income by up to $3.4 trillion. In total, the global economy is projected to shrink by 3 percent this year. The pandemic presents a global challenge, and nations and international organizations around the world are pursuing similar measures to what the United States has done to soften the economic blow.

The United Nations

The United Nations is an international organization that was founded in the wake of World War II. It is comprised of 193 member countries – nearly every nation in the world. While one of its main missions is to preserve international peace and promote human rights, it also works to increase living standards by providing financial assistance to poor nations.

In March, the UN released a report outlining recommendations to combat the global health crisis. The report calls for a multilateral response of at least 10 percent of global GDP, approximately $8.5 trillion, which would be "the first truly global fiscal stimulus in history." It further recommends that the stimulus be directed to workers, small businesses, and the most vulnerable households. The report calls for debt reduction, a waiver of all interest payments in 2020, universal access to vaccines and treatment, zero cost of remittances, and a suspension of all economic sanctions, including tariffs, to ensure widespread access to food and medical supplies.

Two organizations within the UN system – the World Bank and the International Monetary Fund (IMF) – are responding with financial assistance of their own.

The World Bank

The World Bank is a group of five organizations that work together to provide funding and reduce poverty in developing countries. Its funding comes from a combination of money raised in financial markets, earnings on its investments, fees and contributions by member nations, and the interest earned on loans made to borrowing countries. Over the next 15 months, the World Bank will provide up to $160 billion of financial assistance to at-risk nations. For context, last year the World Bank provided $60 billion to help countries achieve better development outcomes.

Thus far, the World Bank has approved $1.9 billion of emergency aid for 25 countries in Africa, Asia, Latin America, and the Middle East specifically to combat the coronavirus pandemic. The top recipient is India, which is receiving $1 billion for medical screening and treatment. The next highest amounts will be given to Pakistan ($200 billion), Sri Lanka ($129 billion), and Afghanistan ($100 billion). Additionally, the Boards of Directors for both the World Bank and the International Finance Corporation (IFC), one of its member organizations, approved $14 billion in funding for the direct purpose of preserving jobs. The World Bank is providing $8 billion to strengthen health responses and disease surveillance in developing countries while the IFC is providing $6 billion in assistance and loans to support businesses crucial to the supply chain, financial institutions that are now facing higher risk, and businesses struggling to pay their workers.

The International Monetary Fund

The IMF's mission is to ensure the stability of the international monetary system. This involves monitoring the economic and fiscal policies of its members and providing loans to help nations stabilize their currencies and economies. The IMF is primarily funded by its members, and these funds (called quotas) establish each nation's voting rights. In 2019, the IMF approved $70 billion in financing to eight countries.

In April 2020, the managing director of the IMF revealed that 85 countries had asked for emergency financing – the most in its history. In response, the IMF is using its entire $1 trillion financing capacity to provide loans to emerging markets and developing countries. Only $50 billion of those funds are available for quick disbursement, but the IMF is aiming to double that sum to $100 billion. It is also working to lessen the debt burden of its poorest member countries and utilizing its reserves – known as the Special Drawing Right – to increase global liquidity.

G20 Economies

The G20 is a group of 20 major economies – 19 countries and the European Union – that was established in 1999 after a series of international debt crises to be "the premier forum for international economic cooperation." Heads of the member nations meet for a Leaders' Summit each year to hold policy discussions, after which they issue a joint statement.

On March 26, G20 leaders gathered via video conference for an Extraordinary Leaders' Summit, meaning a meeting outside of normal scheduling, to address the COVID-19 crisis. Member nations pledged to inject a combined $5 trillion into the global economy through individual country actions, $2 trillion of which has already been supplied by the United States. Additionally, G20 leaders committed to sharing information and materials, strengthening health systems, expanding manufacturing capacity of medical supplies, supporting extraordinary measures by central banks, and ensuring the flow of vital goods and services through free, fair, and non-discriminatory trade.

Individual Country Responses

Each of the UN's 193 member nations has taken some sort of action following the COVID-19 outbreak (a detailed list of responses can be found here). These responses range from simple travel restrictions to large-scale monetary and fiscal intervention, including increasing the lending capacity of banks and other lenders, direct cash transfers from governments, decreases in interest rates, debt forgiveness, and increased health and welfare spending. The magnitude of responses varies depending on nations' income levels and to what extent they have been impacted by the virus.

The United States is one of the countries most impacted by the virus. Other highly impacted nations include Italy, Spain, and France, all of whose monetary policies are significantly governed by the European Central Bank (ECB). In March, the ECB announced a plan to increase asset purchases in 2020 by 870 billion euro (nearly $950 billion) and to keep its key interest rates at current levels: between -0.5 percent and 0.25 percent.

In addition to the ECB's actions, Italy has relaxed capital requirements for financial institutions and expanded loans available to businesses and households. It also approved an emergency package of 25 billion euro (roughly $27 billion, or 1.4 percent of Italy's GDP) for job preservation, wage replacement, and to support the health care system.

Spain also extended government loan guarantees to businesses and self-employed workers with special assistance available to the tourism sector and suspended rent, mortgage, and consumer credit payments for vulnerable individuals. Additionally, Spain is giving 13.9 billion euro (roughly $15 billion, or 1 percent of Spain's GDP) in financial assistance to workers, businesses, and social welfare programs.

France's fiscal package included 45 billion euro (roughly $49 billion, or 2 percent of France's GDP) for unemployment benefits, health spending, health insurance availability, wage replacement, and direct financial support to businesses and workers.

Nations that have yet to experience COVID-19 on as large of a scale are taking actions of their own to confront the virus. One example is the African continent. The largest common response in Africa involves containment measures such as travel restrictions and business closures. Some nations, however, such as Kenya and Ethiopia, are implementing modest fiscal stimulus measures to combat the economic fallout. Alternatively, African nations suffering from falling oil prices, such as Nigeria and Algeria, have been forced to *decrease* government spending to combat the decrease in revenue. Yet another option being pursued is the establishment of emergency relief funds – for instance in Morocco, Senegal, and Liberia – to which private donors may contribute. In addition to these measures, African nations will need to rely heavily on international organizations for support.

Compared to most nations in the world, including Italy, Spain, and France, the U.S. response thus far is far greater in magnitude. In absolute dollar terms, the United States has supplied roughly $2 trillion, which is 10 percent of U.S. GDP, and is likely to spend more moving forward. In relative terms, however, a handful of nations are investing more heavily in their economies than the United States. For example, Mongolia announced a stimulus package valued at 13 percent of GDP (MNT 5.1 trillion, or roughly $1.8 billion) and Qatar's stimulus also amounts to 13 percent of GDP (QAR 75 billion, or $20.6 billion). Additionally, Malta and Singapore are both spending roughly 12 percent of their GDP in response to the crisis, valued at approximately $2 billion and $42 billion, respectively.

Conclusion

Nearly every nation in the world is taking steps to combat COVID-19, attempting to lessen both the death toll and the economic fallout. Time will tell how effective these measures are. The responses of individual nations, and the responses of international organizations tasked with providing support to the most vulnerable, have a vital role in preserving the global economy.