



UNDP LAC C19 PDS N°. 7

International financial cooperation in the face of Latin America's economic crisis

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May 2020

Abstract

This essay argues that the current global economic crisis will be remembered not only for being the worst since the Great Depression and one in which the domestic policies adopted by the developed countries were ambitious, but also by the limited multilateral financial cooperation agreed, in particular to support middle-income economies. The Latin American countries have benefited from the improvement in the IMF emergency credit lines, although with modest resources, and can access other credit facilities of that institution. Members of the Latin American Reserve Fund (FLAR) also have the possibility of accessing the resources of this regional body. The multilateral development banks have taken various important measures to support the countries of the region, but the programmed resources have so far been limited. The programmes announced by the Inter-American Development Bank and the Development Bank of Latin America (CAF) are important, but these banks are at the limit of their lending capacity and need to be capitalized. The World Bank has increased its credits to the region, but these are still lower than those that it financed during the previous crisis. The dynamic of the Central American Bank for Economic Integration stands out thanks to its recent capitalization.



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Introduction to the series:

Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The Covid-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects

that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the Covid-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

Luis F. Lopez-Calva
United Nations Development Programme
Regional Director, Latin America and the Caribbean
New York, March 2020



1. Introduction*

COVID-19, the worst pandemic in a century, has generated, in turn, a global economic crisis characterized by the Managing Director of the IMF, Kristalina Georgieva, as the worst since the Great Depression of the 1930s (Georgieva, 2020b). The effects of the confinement and social distancing measures on the population have been devastating for economic activity, as they paralyze “non-essential activities”, which can account for up to 50 per cent of economic activity in many countries. The disruption of the financial markets has also been profound at the global level and has generated the worst flight of portfolio capital from emerging markets in history. In turn, international trade is experiencing a powerful contraction, deepening the recession that was already being faced towards the end of 2019 as a result of the global economic slowdown and “trade wars”, especially between the United States and China. Added to this was the fall in prices of an important group of basic commodities against a trend that was already negative for some years back. Exports of services is also experiencing a fall, especially due to the paralyzation of tourism and air passenger traffic. Of no less importance, remittances of migrant workers to their countries of origin will show a marked fall, and new controls are being imposed on international migration.

In the case of Latin America, the pandemic has arrived late and its effects in terms of people affected and mortality have so far been less devastating than in China and the developed countries. In economic terms, however, the pandemic is hitting the region after five years of slow economic growth, which can be characterized as a “lost half decade” (Ocampo, 2020). Apart from the direct effects of confinement on the countries where this has been imposed, or those which the population has adopted voluntarily to protect itself, the economies of the region are also experiencing the effects of the global crisis, including on trade, paralyzation of tourism, sudden interruption of foreign financing, the fall in commodity prices and the drop in flows of remittances. Latin America will experience the most pronounced fall in economic activity in the developing world, echoing the pattern which has characterized it in recent decades – although with varying effects between different Latin American countries. The 2020 recession will, moreover, be the worst since the Second World War, and there is thus the danger (and almost a certainty) that the lost half decade will turn into another lost decade.

Against this adverse background, both globally and regionally, international financial cooperation has so far proved very feeble, in contrast with the strong cooperation led by the G20 (Group of Twenty) during the North Atlantic financial crisis of 2008-09¹. This essay analyses the debate and decisions adopted in terms of current international financial cooperation and the extent to which it benefits Latin America². It is divided into seven sections, the first of which is this introduction. As a background, the following two offer some considerations about the global and regional context. The fourth presents a general analysis of international financial cooperation, and the fifth and sixth analyse international monetary cooperation and that of the multilateral development banks, and their impact on Latin America. The final section sets out a few conclusions.

It should be noted that contributions by academics to the current debates have been enormous (see, for example, among others, Baldwin and Weder de Mauro, 2020, Levy, 2020, Stiglitz et al., 2020, and my contributions with

1 I prefer this term to the more commonly used Global Financial Crisis because, although its effects were global, it concentrated in the United States and Western Europe. The bulk of emerging economies did not experience a financial crisis and their recovery was rapid, driven by China and high commodity prices.

2 In my analysis, I leave Cuba out, which is not a subject of the international financial cooperation which I analyse in this article, and Haiti, which is, but is the subject of special mechanisms for very low-income countries, to which I refer only marginally. For its part, Venezuela faces particular problems with respect to the international financial institutions mentioned throughout the essay.

* Given the speed of the events through which we are living, this essay must be analysed in the light of information and policy decisions adopted up to May 1st 2020. I thank Marcela Meléndez for her comments on the previous version of this essay, and María Luisa Montalvo and Víctor Alejandro Ortega for their collaboration in its preparation.



others in Gallagher, Ocampo and Volz, 2020, Gallagher et al., 2020, and Griffith-Jones, Maradon and Ocampo, 2020). I cannot do full justice here to these contributions, although I will refer to some suggestions formulated by different authors on the reforms necessary to tackle the crisis in the emerging and developing economies.

2. The global context

The recent International Monetary Fund's World Economic Outlook (IMF, 2020b) estimates a decline in global GDP at market exchange rates of 4.2% in 2020.³ This is the result of falls of between 5 and 7% in major developed economies and 5% or more in emerging and developing economies as a whole, with Latin America as the worst performing region. This estimate is much more pessimistic than those suggested by other organizations a few weeks earlier⁴. The powerful reduction in forecasts has been a characteristic of recent international analysis and reflects recognition of the devastating effects on economic activity generated by confinement (quarterly contractions which were already strong in the first quarter⁵ and may reach two-digit levels in many economies in the second quarter). The basic IMF forecast assumes that these effects will gradually dissipate – as is reflected in recent data from China, the country which was affected the earliest. There is obviously uncertainty about whether there will be medical instruments (especially mass diagnostic testing available for all countries, effective treatment systems, adequate hospital capacity and, eventually, vaccines) which would prevent further severe outbreaks, which would force general confinement of the population again, thus delaying the recovery of economic activity.

The crisis will certainly be more severe than that experienced by the global economy during the North Atlantic financial crisis (-2.0% in 2009, according to the IMF, at market exchange rates), especially because of its truly global reach, with few countries having positive growth rates (very modest in the cases of China and India according to IMF estimates) unlike the recession of 2009 which did not happen in a broad group of emerging and developing countries, especially in Asia. Hence the Managing Director's comparison is with the Great Depression of the last century. It should be noted, however, that this crisis will have essential differences from the Great Depression in terms of its depth, duration and the speed of recovery. It should be recalled that in the United States, GDP fell during the Great Depression for three consecutive years, with a cumulative fall of 27% according to the historic figures of Angus Maddison⁶, and only returned to 1929 levels a decade later. Even in the case of the twelve major European economies, the recession also lasted three years, although it was less severe (a cumulative fall of 9.6%) and the 1929 level was regained in 1935. Thus, although the collapse in GDP has been even faster than during the Great Depression, it is not clear that the crisis will be as profound and prolonged. The recovery will almost certainly be quicker, and in this sense more comparable to that from the North Atlantic financial crisis, although initially deeper and truly global in character. The basic IMF projection is growth of 5.4% in 2021 (at market exchange rates) which would more than offset the 2020 recession, although not in all countries. However, as the organization recognizes, this is an optimistic scenario, as it assumes that there will not be further severe public health problems. In the pessimistic scenarios, if the recovery takes longer than expected in 2020, there would be an additional fall of 3% this year, and if this were combined with a further outbreak in 2021, activity would be 8% below that projected next year⁷. In any case, it is most likely that the recession will be less prolonged than during the Great Depression.

³ The most publicized IMF estimate is -3.0%, calculated at purchasing power parity prices. This estimate is not comparable with those at market exchange rates used by the United Nations, the World Bank and the majority of private analysts. The IMF estimate is skewed by the greater weight of China and India in global GDP at purchasing power parity prices. Furthermore, an essential weakness of the IMF measure is that it is not comparable with the evolution of financial and commercial aggregates, all of which are estimated at market exchange rates and prices.

⁴ See, for example, United Nations (2020a) and Economist Intelligence Unit (EIU, 2020), which only a few weeks earlier had forecasted -0.9% and -2.5% for the global economy as a whole, respectively.

⁵ A contraction of 6.8% in the case of China, the country which was affected the earliest, and 4.8% in the United States, and 3.8% in the Eurozone, two regions where the economic effects of the pandemic only began to be felt severely in March.

⁶ www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-database-2010

⁷ These estimates are at purchasing power parity prices.



In the face of these effects, developed countries have been adopting aggressive measures in terms of increases in public spending and reduction or deferral of payment of taxes, provision of liquidity, and credit lines and loan guarantees for the business sector. The adoption of ambitious policies is correct, as, according to An and Loungani (2020), policy choices must be guided by the worst scenario foreseeable, given the inability of economists to forecast recessions that can last more than a year. Both in fiscal and monetary terms, the IMF estimates that the packages are stronger than those adopted to tackle the North Atlantic financial crisis (IMF, 2020c and 2020d). In fiscal terms, for example, it is estimated that the G20 countries have adopted spending or tax relief packages equivalent on average to 3.5% of GDP compared to 2.1% in 2009 (IMF, 2020d, Figure 1.1).

The policies and their composition, however, are very different. The case of the United States stands out, where the fiscal package is huge (6.9% of GDP, and it was expanded after the IMF Report) to which we have to add loans and guarantees equivalent to 4.2% of GDP. The intervention by the Federal Reserve has also surpassed that adopted in 2008-2009, not only in its magnitude but also in the purchase of less secure assets. Japan has also aggressively adopted fiscal measures and loans and guarantees (10.0% and 10.5%, respectively).

European countries have been less ambitious in fiscal terms, with packages that generally range from 1 to 3% of GDP, but reach 4.4% in Germany, which has temporarily suspended its “black zero” budget rule. Some countries in this region, however, have been aggressive in terms of loans and, especially, loan guarantees, which together reach 30% or more in Germany and Italy, and between 10 and 16% in Spain, France and the United Kingdom. There has also been a new wave of provision of liquidity by the European Central Bank and the national central banks. The European Union has been immersed, however, in the debate between the countries of the “North” and the “South” on a joint programme financed by Eurobonds to support the most affected countries, prominent among them Italy and Spain.

It should also be noted that, in contrast, China’s expansionary policies have been less pronounced than those adopted in the face of the 2008-09 crisis (a 2.5% of GDP fiscal package, according to the IMF). It should also be highlighted that the fiscal measures adopted then led to a strong recovery of its economy, which in turn stimulated many emerging and developing economies, including through the rapid and strong rebound of commodity prices. This reflected the lower fiscal margin that the Asian giant has today, a constraint which affects many emerging and developing economies.

The effects on financial markets were initially devastating, even before the real effects of the crisis began to be seen. They were reflected in the collapse of equity markets worldwide, the increase in risk spreads on emerging market bonds and those of private firms with low credit ratings. However, thanks to the strong interventions by central banks, these falls were less pronounced than during the North Atlantic financial crisis, and even came to a halt, generating a recovery in financial markets since late March – albeit partial in relation to pre-crisis levels (IMF, 2020c). One of the most pronounced effects was the worst flight of portfolio capital from emerging economies in history, which exceeded \$100 billion (IIF, 2020 and IMF 2020c; for simplicity in the rest of the essay, I use the symbol \$ to refer to United States dollars). The risk spreads for these economies and even more for the so-called “frontier markets” have remained high, but with the fall in benchmark interest rates (those of United States Treasury bonds), bond yields and, ultimately, the costs of new financing have remained at relatively moderate levels, and several countries have begun to issue bonds on international markets since mid-April more rapidly than in past crises. We will return to these subjects in Section 4.



Another effect of the crisis has been a strong contraction in international trade. In this regard, the fall in the volume and value of trade had started at the end of 2019,⁸ and was reflected in a slight fall in the volume of trade in that year by 0.1% according to the World Trade Organization (WTO, 2020). The IMF (2020b) estimates that the global trade volume will fall by 11% in 2020, a figure slightly higher than the contraction of 10% experienced in 2009. For its part, the WTO (2020) estimates that the fall will range between 13% in the basic scenario to 32% in the most pessimistic one. This strong fall is due not only to the global recession, but also to the logistical problems of ports, international transport, the effects of confinement on supply of manufactured goods and the difficulties faced by existing value chains. The crisis may, in practice, generate the destruction or severe contraction of many international value chains, thus putting a brake on the principal source of growth of international trade for several decades. For this reason, the recovery may be much slower than experienced in 2010 (when it grew by 13%, which more than offset the fall in 2009, according to IMF data). For its part, in terms of basic commodities, the crisis generated a profound fall in prices of oil and other energy products, a less pronounced reduction in those of basic metals, and diverse trends in the case of agricultural products.⁹

As shown in Table 1, the recent recession takes place against a background of the slowdown experienced by the global economy since the North Atlantic financial crisis, a trend which led some analysts to talk about a possible “structural stagnation” of the most developed economies. As can be seen, the fall was strong and widespread in 2010-19 compared with the 2002-07 boom, but also with the growth experienced between 1990 and 2007. In the latter case, there are two exceptions: South Asia, due to the more rapid growth of India in recent times, and the transition economies, which had experienced an initial economic collapse after the fall of communism around 1990. It should be added that the slowdown in global economic growth since the North Atlantic financial crisis was much worse in the case of the volume of international trade, which grew at its slowest pace since the Second World War: 3.1% annually in 2007-19, compared to 7.3% annually in 1986-2007.¹⁰

■ **Table 1** Annual growth rates of the principal regions of the world

	1990–2007	2002–2007	2010–2019
World	3.0%	3.9%	2.8%
Developed economies	2.4%	2.6%	1.8%
United States	3.1%	3.0%	2.2%
Japan	1.3%	1.7%	1.0%
European Union	2.2%	2.5%	1.5%
Other	2.8%	2.9%	2.2%
Economies in transition	0.3%	7.9%	1.8%
Developing economies	5.3%	7.0%	4.5%
Africa	3.8%	5.9%	2.8%
East Asia	7.8%	8.8%	6.1%
China	10.6%	11.7%	7.3%

8 See in this respect the statistics published monthly by the CPB Netherlands Bureau on behalf of the European Commission, <https://www.cpb.nl/en/worldtrademonitor>. These figures indicate that the 12-month moving average of the volume of global exports was negative from October 2019, and in value from August.

9 The IMF data on commodity prices indicate that in March, prices of energy products had fallen by 44.7% compared with the average for 2019, and oil by 48.2%; as is well known, the fall in oil prices was dramatically more acute in April. Basic metals had fallen by 12.9% in March and agricultural products which are used as industrial inputs, by 7.5%, but food and drinks by only 3.4%, although with very diverse patterns by product (an increase in Arabica coffee prices, for example, and a fall in cereal prices). World Bank projections (2020c) for the full year follow this pattern.

10 Own calculation based on UN historical series up to 2007 and IMF thereafter.



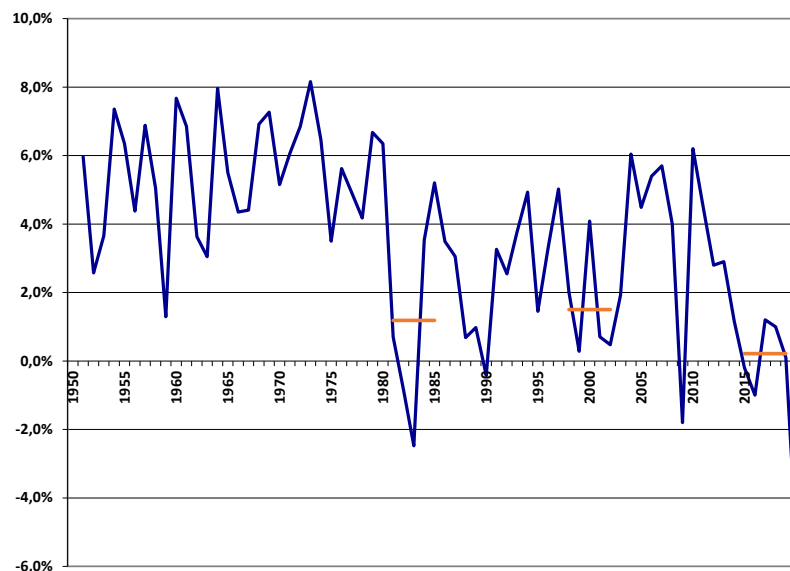
South Asia	5.4%	7.1%	5.5%
India	6.1%	7.9%	6.7%
West Asia	4.4%	6.6%	3.8%
Latin America and the Caribbean	3.2%	4.6%	1.4%
South America	3.3%	5.1%	0.8%
Mexico and Central America	3.1%	3.4%	2.7%

Source: United Nations Department of Social and Economic Affairs.

3. The Latin American context

Within this global pattern, Latin America has been the region in the developing world with the worst performance since 1990, including during the 2002-07 boom. Furthermore, as shown in Figure 1, the region recently experienced anemic growth, the worst since the Second World War. In the previous five years of weak economic growth, those which followed the 1997 Asian crisis, average annual GDP growth was 1.5%. In 1980-85 (the worst five years of the debt crisis), it was 1.2%. In the last five years, it barely reached 0.2% (0.9% excluding Venezuela)

■ Figure 1 Latin America: GDP growth, 1950-2020



Source: ECLAC. The horizontal lines refer to average annual growth of low growth indicated in the text.

This poor performance reflects not only economic problems, but also complex political crises and transitions in several countries, notably Venezuela. Brazil experienced its deepest recession since the Second World War in 2015-16, and has been recovering very slowly, in the midst of major domestic political changes. Under new political leadership, the Mexican economy stagnated and even fell into recession in the first half of 2019, which was reflected in a small decline in GDP for the year as a whole. Argentina has been facing deep domestic macroeconomic imbalances and an unaffordable external debt, as well as a political transition.

But the economic problems of Latin America began well before the current wave of economic and political instability. It is worth remembering that economic growth in the region during the last three decades (1990-2019 to



be precise) was only 2.7% a year, half that achieved in the thirty years that preceded the lost decade of the 1980s (5.5% annual growth in 1950-80). Almost all the economies of the region have grown less than during that time (the exceptions are Bolivia, Chile and Uruguay¹¹); the fall was particularly dramatic in Brazil, Mexico and Venezuela. This shows that, over and beyond the current crisis, the development patterns of the region need to be considered in depth.

All the principal multilateral organizations which serve the region have published analyses and projections for the Latin American countries in recent weeks (World Bank, 2020a, IADB, 2020, ECLAC, 2020a and 2020b) to which can be added the IMF estimates in its most recent World Economic Outlook (IMF, 2020b). All forecast a substantial recession, as does Goldman Sachs (2020), the first private entity that forecasted a strong fall in economic activity in Latin America. As shown in Table 2, these organizations estimate a fall of around 5% for the region as a whole, which will be particularly severe in Argentina, Brazil, Ecuador, Mexico and Venezuela. Among the larger countries, Chile and Peru would be less affected and Colombia would be the one with the best performance – a matter for debate.¹² In general, the smaller countries, with the notable exception of Ecuador, have better expected performance according to these estimates: falls of 3% or less in the case of the Central American countries (with the exception of Nicaragua), the Dominican Republic, Bolivia, Paraguay and Uruguay (although in the latter, ECLAC estimates a fall of 4%). For the region as a whole, the 2020 recession will be the worst since the Second World War (in practice, much worse than 1983, the worst year of the debt crisis) and one of the worst since the beginning of the 20th century.¹³

■ Table 2 Projections of economic growth in Latin America

	ECLAC		IMF	World Bank
	2019	2020	2020	2020
Argentina	-2,2	-6,5	-5,7	-5,2
Brazil	1,1	-5,2	-5,3	-5,0
Colombia	3,3	-2,6	-2,4	-2,0
Chile	1,1	-4,0	-4,5	-3,0
Ecuador	0,1	-6,5	-6,3	-6,0
Mexico	-0,1	-6,5	-6,6	-6,0
Peru	2,2	-4,0	-4,5	-4,7
Venezuela	-25,5	-18,0	-15,0	n.d.
Latin America and the Caribbean				
2020	0,1	-5,3	-5,2	-4,6
2021			3,4	2,6

Sources: ECLAC (2020b), IMF (2020b) and World Bank (2020a)

All the organizations acknowledge the region's poor economic performance in recent years, as well as the economic shocks that they face as a result of COVID-19. The shocks include those mentioned above: the contraction of international trade, the interruption of value chains and the reduction in commodity prices. To these we must add

¹¹ It should be noted that only two economies, both small, Panama and the Dominican Republic, have grown at a rate higher than 5% in 1990-2019, but in both cases the growth is also slightly lower than in 1950-80.

¹² See in this respect the projections of the principal research centre of Colombia, Fedesarrollo (2020), whose most optimistic scenario is a fall of 2.7%, but also contemplates two alternatives, with contractions of GDP of 5.0% and 7.9%.

¹³ If the data of the ten economies for which there has been information since 1900 are added together (Table 1 of the Statistical Appendix of Bértola and Ocampo, 2012), the only worse years would be 1914 and 1930.



the fall of intraregional trade as a result of the recession in all the countries of the region, an essential issue for the trade in manufactured goods. The collapse of tourism is an additional element for the countries which depend on that activity. Added to this are the effects of financial turmoil: the flight of portfolio capital, increases in risk spreads and exchange rate depreciations with their inflationary effects. To these we should add the reductions in remittances, both from abroad (especially from the United States and Spain) and intraregional, which will fall overall by 19% in 2020 according to World Bank forecasts (2020b).

The effects of the pandemic and the confinement measures have also begun to be felt. The pandemic has arrived with a lag, which has been an advantage for governments that decided to take early action (unfortunately, not all). The problems of Guayaquil have been the most serious, but the trajectory of confirmed cases and deaths in Brazil has also been of great concern.¹⁴ As many analysts have highlighted, the scale of the contagion, including the deaths associated with the pandemic, may be underestimated due to a lack of testing to detect the disease; the data from different countries are not, moreover, strictly comparable, due to differences in the way their data are collected and reported.

In terms of economic policy, the great constraint is the fiscal margin available to countries in the region, which is much more limited than the fiscal space they had to tackle the North Atlantic financial crisis, an issue which has been highlighted by several analysts from the Inter-American Development Bank (IADB). Izquierdo and Ardanaz (2020) emphasize that the average deficit of countries of the region was 3% of GDP in 2019 compared to 0.4% in 2008, while the average public debt was 62% of GDP in 2019 compared to 40% in 2008.

The response of countries of the region has been in line with international trends, but has been very diverse. Central banks have provided extensive liquidity (with the obvious restriction for dollarized countries). Governments have adopted fiscal programmes, especially in support of the health sector and poor and vulnerable households, as well as reduction or deferral of certain tax payments, but the scale of the corresponding packages is very variable. According to IADB estimates, the largest, as a percentage of GDP, are those of El Salvador, Peru, Chile and Brazil (Pineda et al., 2020). Some have also launched credit lines or loan guarantees on a large scale. In this regard, the most notable cases are those of Chile, Colombia, Peru and Uruguay. Despite the foregoing, the magnitude of macroeconomic support in most countries is modest compared with that of the developed countries.

The social impacts are and will be substantial, as pointed out by ECLAC (2020a and 2020b). They arise, moreover, in a context of deterioration in social conditions since 2014, largely as a result of the poor economic performance of the region. The inadequate investment in health is reflected in weak and fragmented systems which do not guarantee universal access in many countries. The interruption of school attendance also means an interruption of school meal programmes, which several countries have sought to provide in various ways, including with cash subsidies. The great digital divide associated with diversity of access to computers and digital platforms means that students from humble backgrounds are particularly affected and even prevented from benefiting from virtual education. On top of that, the informal character of employment means that a high proportion of households in confinement have no income, and may not have the help provided by conditional cash transfers if they are not poor, but are nevertheless vulnerable. Many micro and SMEs may end up in bankruptcy, which is extremely worrying, as they generate a high proportion of employment in the region. As a result of all this, ECLAC estimates that poverty will increase from 30.3% in 2019 to 33.8% in 2020, which is equivalent to an additional 24 million people in a state of poverty.

¹⁴ See the monitoring by the IADB of the spread of the pandemic in the region: www.iadb.org/en/coronavirus/current-situation-pandemic.



4. An overview of international financial cooperation during the crisis

The debate on international cooperation has highlighted that, while the pandemic has affected Western Europe and the United States earlier and has reached developing countries with a time lag, the latter are economically and socially more vulnerable. The reasons are many: confinement is much costlier for a population with the limited resources of developing countries, who live in small and crowded spaces, sometimes without access to water; income support for the poor sectors does not exist or does not reach the intended population; health systems are of poor quality and do not cover the whole population; and informality of employment is widespread and means that confinement leaves a wide section of the population without an income. Added to all this is the fact that, as already indicated in relation to Latin America, fiscal space is more limited and access to credit to finance greater public spending is more restricted. For this reason, there is agreement about the need to adopt ambitious policies to support emerging and developing countries. The financial requirements of these countries are immense: \$2.5 trillion according to both IMF (Giorgieva, 2020a) and UNCTAD (2020a) estimates.

Faced with these vulnerabilities and needs, the international cooperation which has been agreed up to now has been extremely limited, both in terms of actions taken and resources to which emerging and developing economies will have access. This is particularly true of the group of middle-income countries, to which almost all Latin American countries belong¹⁵, as there have been somewhat more relevant actions – albeit insufficient – for lower-income countries¹⁶ and it is much more likely that the latter will intensify.

The weakness of multilateral cooperation was particularly evident in the meetings of the Group of 20 and the Bretton Woods institutions that took place in Washington in the third week of April. Indeed, the Spring Meetings of 2020 will be remembered, not only for having been the first in history which took place in a virtual format, but also for the limited international decisions adopted in the face of the magnitude of the current crisis. All this happened despite the leadership of IMF Managing Director, Kristalina Georgieva.

There have, of course, been ambitious promises and sincere expressions of international solidarity. The Heads of State of the Group of 20 committed at the end of March “to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience” (G20, 2020a). The Ministers of Finance and Central Bank Directors of the G20 said something similar in their declaration during the meetings of the Bretton Woods institutions.

However, the multilateral actions did not match these promises. In fact, the actions in place are in strong contrast to the “Global Plan for Recovery and Reform” adopted by the G20 Heads of State in London on 2 April 2009 to address the international crisis of the time (G20, 2009). This declaration led to the most important reform of IMF credit lines in history, the largest issue of IMF’s Special Drawing Rights (SDR), capitalization and massive increase in the lending of multilateral development banks, and an ambitious reform of financial regulation. With some delay, it also led to the start of efforts to strengthen international tax cooperation, which was assigned to the OECD, the adoption in 2012 of the so-called “Institutional View” of the IMF on capital flows, and the increase and redistribution of IMF quotas; the latter, unfortunately, was five years late due to a delay in the approval of the corresponding resources by the United States Congress.¹⁷

¹⁵ The exception is Haiti, which is not analysed here for the reasons explained in Note 2.

¹⁶ Includes new IMF resources, debt relief and suspension of debt service during 2020. The World Bank has also significantly increased its programmes for the poorest countries. I shall refer to some of these issues later.

¹⁷ See detailed analysis of these issues in Ocampo (2017).



In comparison with these actions, and the needs of the emerging and developing economies, the announcements in the Spring Meetings of the Bretton Woods institutions and the parallel actions adopted by the G20 were minuscule. This limited international cooperation contrasts with the ambitious domestic policies adopted by developed countries. As we saw in a previous section, in the case of the United States, these policies were much more aggressive than those adopted by the North American powerhouse in the face of the 2008-09 financial crisis. In contrast, its support for international actions has been, as we shall see, limited. The European countries also adopted pronounced counter-cyclical policies and were more open to multilateral cooperation. Indeed, the contrast between the aggressive domestic economic policies of developed countries and the limited international cooperation seems to be an important mark of the current crisis.

5. International monetary cooperation and its effects on Latin America

The agenda for monetary issues is broad, as pointed out by Gallagher et al. (2020). It includes six areas: (i) provision of international liquidity; (ii) creation and expansion of IMF credit lines; (iii) guarantees that this institution will have adequate resources to do so; (iv) possible coordination of regulation of capital flows and of decisions by risk rating agencies; (v) actions aimed at managing problems of over-indebtedness in various emerging and developing economies; and (vi) active use and expansion of regional monetary agreements. In the rest of this section, we will analyze these issues and their relevance for Latin America.

In terms of provision of liquidity, the proposal which received the widest support was the issue of at least \$500 billion in SDRs IMF, doubling the issue in 2009 as part of the multilateral policies adopted at that time.¹⁸ To make better use of this issue, a special fund could be created so that countries that will not use the SDRs received could lend them to the IMF to fund its programmes, or use them to support other programmes in favor of developing countries (capitalize multilateral banks or increase official development assistance). It would obviously be useful to have a distribution based on criteria other than quotas¹⁹ that determine the allocation of SDRs to countries, but this would require a change in the IMF Articles of Agreement, which would be a prolonged process and hard to accept by the principal members.

Given the share of Latin American countries in IMF quotas, this issue would mean an increase in its international reserves of \$37.7 billion, equivalent to a slight increase of less than 5% of these reserves at the end of 2019 and a little more than 40% of the net capital and financial flows to the region in that year.²⁰ The distribution by country would be that shown in Table 3: as a proportion of GDP it would reach 0.7% on average, ranging from 0.6% and 0.8% for most countries, but a higher amount for those for which GDP in dollars has fallen substantially in recent years (over 2% for Nicaragua and Venezuela).

There are more ambitious proposals, including one by some Heads of State and former Latin American ministers (Cardoso et al., 2020) for issuing a trillion dollars of SDRs. Although it would be useful, it would require approval and not mere consultation of the United States Congress, which is required when the SDRs allocated to the United States exceeds its IMF quota – which would doubtless delay the decision.²¹ This means that the maximum issue that would avoid having to go to that legislative body is equal to the total IMF quotas, which today is around \$650 billion dollars.

¹⁸ For an earlier version of these suggestions, see Gallagher, Ocampo and Volz (2020b). See also Collins and Truman (2020).

¹⁹ As reflected by a lengthy historical debate, the alternative criteria could be level of development, to allocate a larger amount to the poorest countries, or the demand for international reserves of different economies. See a detailed analysis of these issues in Ocampo (2017), Chapter 2.

²⁰ The referenced data are taken from ECLAC (2019).

²¹ This is what happened in 1997, but for a different reason: the change in the composition of IMF quotas. As we saw, the IMF capitalization agreed in 2010 took five years to be approved by the United States Congress.



■ Table 3 Quotas of Latin American countries in IMF

	Quota in IMF			Effect of an issue of \$500 billion	
	Million of SDRs	Million of dollars	Percentage of total	Million of dollars	% of GDP
Brazil	11.042	15.120	2.31%	11.574	0.62%
Mexico	8.913	12.204	1.87%	9.342	0.77%
Venezuela	3.723	5.097	0.78%	3.902	2.52%
Argentina	3.187	4.364	0.67%	3.341	0.65%
Colombia	2.045	2.799	0.43%	2.143	0.65%
Chile	1.744	2.388	0.37%	1.828	0.62%
Peru	1.335	1.827	0.28%	1.399	0.63%
Ecuador	698	955	0.15%	731	0.68%
Dominican Rep.	477	654	0.10%	500	0.59%
Uruguay	429	588	0.09%	450	0.76%
Guatemala	429	587	0.09%	449	0.62%
Panama	377	516	0.08%	395	0.61%
Costa Rica	369	506	0.08%	387	0.65%
El Salvador	287	393	0.06%	301	1.16%
Nicaragua	260	356	0.05%	273	2.09%
Honduras	250	342	0.05%	262	1.10%
Bolivia	240	329	0.05%	252	0.63%
Paraguay	201	276	0.04%	211	0.53%
Total Latin America	36.006	49.302	7.55%	37.740	0.72%

Source: IMF Values in SDRs are converted to dollars at the exchange rate on May 1st. The estimates as % of GDP refer to 2018, based on GDP ECLAC estimates for that year.

Although the proposal for a substantial issue of SDRs had wide support among the members of the IMF and public opinion, it was vetoed by the United States during the Spring Meetings of the Bretton Woods Institutions, with the argument that close to 70% of the resources would go to G20 countries, the majority of which did not need them to tackle the crisis (Mnuchin, 2020). Surprisingly, India supported the view of the United States. Although it is true that somewhat less than two fifths of the SDR issues benefit emerging and developing countries, it is also true that it is the only participation that these countries have in the creation of international money (“seigniorage” as it is called in the economic literature) – the privilege enjoyed by the United States, the Eurozone and, to a lesser extent, other developed countries and China. In fact, the benefits from the issue of SDRs would be considerable for many low-income countries (Collins and Truman, 2020).

It is worth adding that, to contribute to the creation of international liquidity, the United States Federal Reserve relaunched its swap lines with other central banks, following a practice that had already been put into effect during the North Atlantic financial crisis. However, only four emerging economies have access to this mechanism: Brazil and Mexico in Latin America, and the Republic of Korea and Singapore in East Asia (the latter, it should be added, are still classified as emerging, but are already high-income countries). A new mechanism was the creation of a repo instrument, which allows the Federal Reserve to buy Treasury Bonds which countries want to sell to it; this support, however, only benefits countries with large amounts of foreign exchange reserves.



In terms of creation and enlargement of credit lines, the most important reform was the doubling of the IMF's emergency credit lines, of which the relevant one for middle-income countries is the Rapid Financing Instrument (RFI).²² In the context of simplifying and streamlining procedures, this decision is giving rise to the rapid approval of a multiplicity of credits to a wide range of countries, with resources that can reach as much as \$100 billion – although up to the end of April, the resources utilized barely reached \$15 billion. The fundamental advantage of these lines is the absence of ex-ante conditionality and thus of the “stigma” associated with such conditionality.²³ In April, seven Latin American countries (Bolivia, Costa Rica, Ecuador, El Salvador, Panama, Paraguay and the Dominican Republic) had already made use of this credit line, obtaining in total an amount slightly more than \$3.3 billion (Table 4) These are, to date, the modest resources that have been received by the Latin American countries under the new IMF programmes.

■ **Table 4** Loans to Latin American countries approved through the Rapid Financing Instrument

Country	Million SDRs	Date of approval	Million dollars
Bolivia	240,1	Abril 17	328,8
Costa Rica	369,4	Abril 29	505,8
El Salvador	287,2	Abril 14	393,3
Panama	376,8	Abril 15	515,9
Paraguay	201,4	Abril 21	275,8
Dominican Rep.	477,4	Abril 29	653,7
Ecuador	469,7	Mayo 1	643,2
Total	2.422,0		3.316,4

Source: IMF. The values in SDRs are converted to dollars at the exchange rate on May 1st.

■ **Table 5** Regular loans to Latin American countries approved by the IMF

	Date of approval (Month, day, year)	Maturity (Month, day, year)	Loan value		Disbursed (Million dollars)
			(Million SDRs)	(Million dollars)	
A. Flexible Credit Line (FCL)					
Colombia	May 1, 2020	Abril 30, 2022	7.849,6	10.748,3	0,0
Mexico	November 22, 2019	November 21, 2021	44.563,5	61.019,9	0,0
B. Stand-By Agreements (SBA)					
Argentina	June 20, 2018	June 19, 2021	40.714,0	55.748,9	43.698,8
Honduras	July 15, 2019	July 14, 2010	149,9	205,2	109,5
C. Extended Fund Facility (EFF)					
Ecuador	March 1, 2019	March 10, 2022	3.035,0	4.155,8	1.653,9
D. Stand-By Credit Fund (SCF)					
Honduras	July 15, 2019	July 14, 2021	74,9	102,6	34,2
Total			96.386,9	131.980,7	45.496,4

Source: IMF. The values in SDRs are converted to dollars at the exchange rate on May 1st.

²² On these and other reforms introduced by the IMF, see IMF (2020a).

²³ There is also the possibility that they can be added to the use of other Fund facilities, although in the cases where this has happened, the emergency credits have been granted for less than the amount of the country's quota. This happened with Ecuador on May 1st, when the rapid financing line was approved for 67.3% of its quota.



To these are added those facilities which benefit other countries, but were already in effect before the current crisis: the flexible credit lines of Colombia (renewed on May 1st) and Mexico, the stand-by credits of Argentina and Honduras (one of them concessional in the latter case) and the Extended Fund Facility granted to Ecuador²⁴ (Table 5). Thus, eleven countries in the region are already receiving some support from the IMF. As the flexible credit lines operate as a kind of “insurance” for the countries, they have not so far been disbursed: disbursements of the other credit lines total some \$45.5 billion, the bulk of them to Argentina. It is possible that other countries may request access, whether to the flexible credit line (Peru, perhaps Chile and Uruguay), the emergency line and perhaps some of the more regular programmes. The exception in terms of access is Venezuela, whose request for credit for \$5 billion was rejected by the IMF in March with the argument that there was no clarity among the member states about who is the legitimate president of the country.

Another of the recommendations which has been under discussion is the creation of an IMF swap facility. This recommendation was made by the IMF’s own technical staff two years ago (IMF, 2017) but was rejected by the Board. The G20 Eminent Persons Group on Global Financial Governance (2018) subsequently made a similar recommendation. It may be said that the short-term liquidity line created by the IMF in April responds to this demand, but it is a highly partial response. It will operate as a revolving credit line up to 145% of the country’s quota and without ex-ante conditionality, but access is limited to member states “with very strong policy frameworks and fundamentals”, as in the case of the flexible credit line. So, few countries will have access to it. On top of that, there are doubts about the extent to which the economic deterioration generated by the current crisis will be taken into account in this evaluation. Furthermore, the attraction of the new credit facility is limited because its resources are much lower than those of the flexible credit line and cannot be combined with other Fund credits.

In order to finance the greater demand for credits, the IMF needs to increase the resources available to it up to an amount that the Managing Director has estimated in a trillion dollars. In this regard, an unfortunate decision was adopted last year not to increase quotas and defer this decision until 2023. It is deplorable that the G20 has not decided to accelerate this process, given the additional resources that the Fund needs to tackle the COVID-19 crisis and the wide recognition that this must be the institution’s principal resource. The additional funds will be obtained from the doubling of the New Arrangements to Borrow (NABs) approved in January 2020, reaching close to \$500 billion and bilateral credits granted by several countries. The major contribution of the United States will be its support for the NABs. It should be noted that Brazil, Chile and Mexico also make a modest contribution to this mechanism and, together with Peru, to the bilateral lines. Other Latin American countries, notably Colombia, should also support these mechanisms.

A fourth action line which has been suggested by several analysts is a coordinated regulation of capital flows to curb, in particular, the massive flight of portfolio capital from emerging economies.²⁵ This action would be in line with the “institutional view” on capital flows approved by the IMF in 2012 (IMF, 2012). Similarly, it has been suggested that credit rating agencies should suspend their downgrading of ratings (or outlook within rating grades) during the crisis, as these feed the flight of capital. Mexico and Colombia have already been affected by decisions of this kind, although they have maintained their investment grade; Argentina and Ecuador, as well, within their speculative grades. Neither the G20 nor the IMF have expressed any views on these issues.

²⁴ This credit was suspended on May 1st, at the time when Ecuador was given access to the emergency credit line. Ecuador will, however, seek again long-term credit support from the IMF.

²⁵ See, on this subject and that of rating agencies, Gallagher et al. (2020).



The fifth subject, debt relief, has been the subject of a wide range of proposals, both institutional (United Nations, 2020b, UNCTAD, 2020c) and by analysts (see, in particular, Bolton et al., 2020, Brown and Summers, 2020 and Reinhart and Rogoff, 2020). This is a field where partial actions have been adopted in relation to low-income countries, but not to middle-income countries such as those of Latin America.

The IMF decided in April that 25 vulnerable members (to which four more could be added) will be exempt from repayments and interest on their debts to the institution during an initial period of six months, thanks to the resources available in the renewed Catastrophe Containment and Relief Trust (CCRT). In turn, the G20 offered a suspension of debt service of all International Development Association (IDA) countries for the rest of the year, a measure which, according to Brown and Summers (2020) should be extended to the whole of 2021. The corresponding decision has already been adopted by the Paris Club and China will almost certainly take a similar decision, although on a bilateral basis. It is not clear, however, whether private creditors will, as requested by the G20. This programme does not cancel the debt, which will continue in place and will continue to accrue interest. In Latin America, Honduras and Nicaragua will benefit from this decision.

In the case of middle-income countries, there are critical cases which require restructuring of the debt, with major relief elements. The most important cases in Latin America are Argentina and Ecuador. The first of these countries has already made an offer to its creditors for a large reduction in its obligations: a three year grace period, a major reduction in interest (2.3% on average, which compares with rates of 10% for the majority of its bond issues) and a modest reduction in the principal of 5%. It is unlikely that this offer will be accepted by the creditors, and this country could thus end in a default. Although there are proposals for fairly general debt standstill for emerging and developing economies (see in particular UNCTAD and Reinhart and Rogoff, among the works cited above), other proposals are rather aimed at recommending voluntary mechanisms.

The most interesting proposal is that of Bolton et al. (2020), who suggest creating a central financial credit facility in the World Bank or regional development banks that would benefit countries who choose to participate on a voluntary basis, which would facilitate deferral of amortizations and the use of the interest to finance the health emergency. The interest would, however, continue to be an obligation of the debtor countries that must be paid in the future, and creditors would thus retain a right over them, as well as to amortizations. In this way, the credit facility would operate as a mechanism for refinancing debt service during the emergency. It would apply to all bilateral and commercial debts on equal terms. Apart from its voluntary character, it would be subject to intermediation and strict monitoring by the multilateral bank managing it.

It should be added that, over and beyond the short-term actions, the United Nations and UNCTAD have suggested that an institutional mechanism should be created for renegotiation of sovereign debt, a subject which has been on the agenda for the last two decades, with progress limited to the definition of principles and clauses that allow individual renegotiation of a country with its creditors, but with no specific institutional framework in place.²⁶

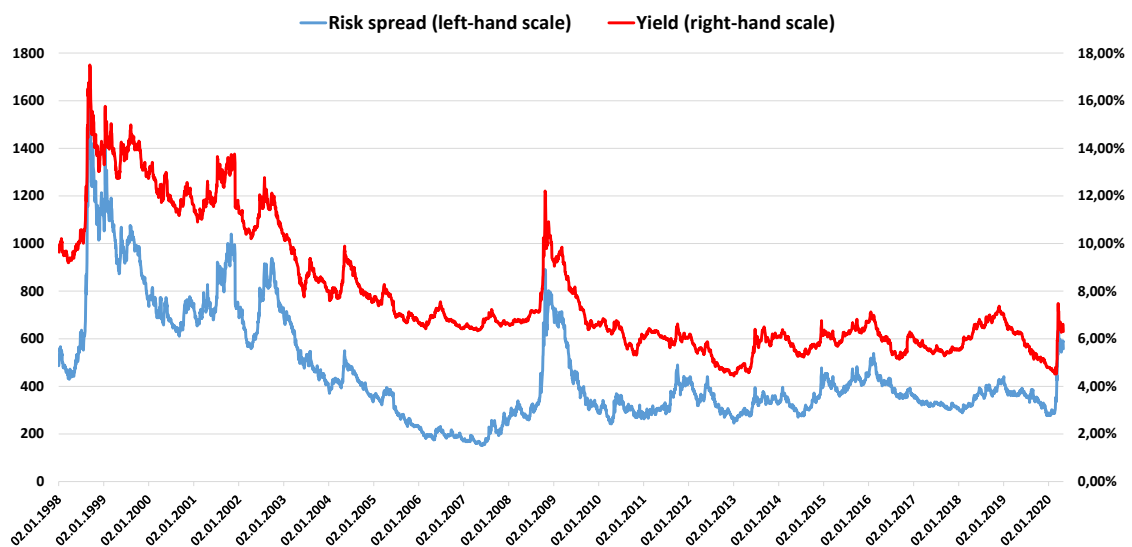
It is important to emphasize that it makes no sense for Latin America to adopt a uniform rule in this area. Indeed, as shown in Figure 2, which shows the evolution of the JPMorgan's EMBI index, although the risk spreads on bonds issued by the emerging economies rose during the current crisis, they remained below those reached during the North Atlantic financial crisis and, especially, those which prevailed after the Russian default in August 1998 (which, in turn, succeeded the 1997 Asian crisis) for close to years. Most importantly, with the strong fall in bond yields used as a benchmark to calculate these margins (ten-year United States Treasury Bonds), the bond yields of emerging economies

²⁶ See a review of the corresponding debate in Ocampo (2017), Chapter 5.



have remained on average well below those reached during previous crises, and even the levels reached during upheavals in the international markets for emerging economies in 2018.

■ **Figure 2** Risk spreads and yields on emerging market bonds (JPMorgan EMBI Index)



Source: Bloomberg

Furthermore, bond markets for emerging economies have begun to open up much more rapidly than after the North Atlantic financial crisis, when they took a little over twelve months after the collapse of the North American investment bank, Lehman Brothers, to open up. This shows that there is again a “search for yield” by several investment funds in developed countries, to offset the very low or negative yields of developed countries’ bonds. An additional reflection is the fact that the capital flight from emerging economies, which reached \$66.1 billion in March, fell to \$7.4 billion in April (JPMorgan, 2020).

Latin American countries have already benefited from bond issues by Panama at the end of March and since mid-April, by Peru, Guatemala, Mexico, Paraguay, two public companies (Ecopetrol of Colombia, with minority private participation, and Codelco of Chile) and, as we shall see, the Central American Bank for Economic Integration (CABEI). The Mexican issue on 22 April was the largest in its history: it placed \$6 billion with various maturities, at a very reasonable cost (5% for 12-year bonds, the rate most comparable to those of the EMBI) and was oversubscribed 4.75 times.

In this context, a uniform debt solution for the countries of the region does not make sense, as it does not for middle-income countries in general. There are three different cases which need to be addressed separately: (i) those for which a profound restructuring of their debt is needed; (ii) allowing other countries to apply voluntarily to a debt standstill mechanism such as that proposed by Bolton et al. (2020); and (iii) countries with access to new private financing, which would keep up debt services and would mix such financing with credits from the IMF and multilateral development banks.

It is worth highlighting, lastly, the role of regional monetary mechanisms. These mechanisms expanded strongly after the North Atlantic financial crisis and now have \$585 billion available, equivalent to some 60% of those



available to the IMF (Gallagher et al., 2020, Table 1). They are highly concentrated in European funds and the East Asian Chiang Mai Initiative. The deepening of relations between the IMF and regional agreements to form a denser Global Financial Safety Net must be the subject of an active effort, as recognized by both the IMF (2017) and the regional agreements (Regional Financial Agreements, 2018). The strengthening of this network should be accelerated during the crisis.

This collaboration must be based on the complementarity, but also the independence of the institutions, and respect for their respective mandates and governance structures. Although without adopting hierarchical principles of any kind²⁷, the regional agreements must respect the preferential creditor status of the IMF. It is not appropriate, however, for there to be a formal relationship with IMF programmes, which were the subject of much criticism during the Eurozone crisis and are one of the reasons why the resources of the Chiang Mai Initiative have not been used. In the latter case, the basic reason is that, beyond the 30% of resources to which a country is entitled, it must have a formal programme with the IMF, a rule which the members of that agreement do not view favourably in light of the experience of the Fund programmes during the Asian crisis at the end of the last century.

In the Latin American case, we have the Latin American Reserve Fund (FLAR, according to its Spanish acronym), to which eight countries belong: the five Andean countries plus Uruguay, Costa Rica and Paraguay, in the order in which they joined the organization. As part of the measures to strengthen the Global Financial Safety Net, an important task is to expand its membership, until all of the Latin American countries are members. This task has been on the organization's agenda, but its results have been only a partial success: efforts in this direction need to be intensified during the current crisis.

FLAR has had a very successful history of support to its members during the various crises that it has faced, starting with the Latin American debt crisis, which broke out just after its predecessor, the Andean Reserve Fund (FAR), had been created. The member countries used it, at times, as a substitute and at others as complement to the IMF resources. Indeed, there are several cases where countries have requested FLAR support when they did not want to have a formal IMF programme (for example, Colombia in the 1980s). In any case, given the limited resources available to FLAR, the IMF is irreplaceable for large-scale programmes. In that case, countries can use FLAR as a complement or a bridge to an IMF loan, taking advantage in the latter case of the greater flexibility of the former in approving financing.

■ Table 6 FLAR: Capital contributions and maximum credit limits (Million dollars)

Country	Subscribed capital	Paid-up capital	Maximum credit limit	Maximum credit limit by type of financial support		
				Balance of payments support	Liquidity facility	Contingency facility
Bolivia	328,1	256,4	666,6	666,6	282,0	538,4
Colombia	656,3	512,9	1.282,3	1.282,3	512,9	1.025,9
Costa Rica	656,3	513,1	1.282,7	1.282,7	513,1	1.026,1
Ecuador	328,1	256,5	666,8	666,8	282,1	538,6
Paraguay	328,1	256,0	640,0	640,0	256,0	512,0
Peru	656,3	512,9	1.282,2	1.282,2	512,9	1.025,8
Uruguay	328,1	257,0	642,4	642,4	257,0	513,9
Venezuela	656,3	30,7	76,7	76,7	30,7	61,3
Total FLAR	3.937,5	2.595,4	6.539,7	6.539,7	2.646,6	5.242,0

Source: FLAR

²⁷ This means that the principle of "lead agency" proposed by the IMF (2017) must not be adopted.



Table 6 shows the maximum credit limits that member countries have with FLAR, both overall and for each financing facility (balance of payments, liquidity and contingency). The total amount for member countries comes to just over \$6.5 billion. Almost all of it is available because there is only one credit in effect, with Ecuador (for balance of payments) for \$205 million, while the others taken by Costa Rica and Venezuela were paid in January and March of this year. As the Venezuela credit was paid with the capital contribution of that country to the institution, the support that FLAR can give to it is limited today.

The great advantage of FLAR is that its programmes do not have any ex-ante conditionality, although there is an obligation on the country requesting the credit to present a macroeconomic programme to the organization. Its chief disadvantage, as has been indicated, is the scale of the resources available to it, so its lending will almost certainly have to be complementary to that of the IMF, whether as a bridge or as a parallel programme – although not a joint one. It must be added that a further disadvantage during the current crisis is that FLAR facilities can only be used for balance of payments needs and, thus, cannot be used to finance governments at a time when these demands are very high; the IMF programmes can, however, be used for fiscal purposes. Perhaps, therefore, a temporary exception might be appropriate, allowing balance of payments credits to also be used for fiscal purposes.

6. Cooperation from the multilateral development banks

One of the most important financial instruments that the international community and a broad range of countries, both developed and emerging and developing, have is the development banks. These institutions have the fundamental objective of supporting long-term development policies – fostering innovation, infrastructure development, promotion of equity and environmental sustainability–, but they can also be used as counter-cyclical instruments. Moreover, some projects associated with long-term strategies can be pushed during crises to support the recovery of economic activity. These banks, therefore, are a powerful “visible hand” which governments can use to mitigate the economic and social consequences of the current crisis.

The network of development banks includes over 400 institutions at the global level, with total assets of over \$11 trillion and they lend some \$2 trillion per year, according to estimates of the Agence Française de Développement (AFD). They include the World Bank Group, as well as several regional banks (such as the IADB and the Development Bank of Latin America, CAF, according to its historical acronym²⁸), subregional (CABEI) and interregional banks (the Islamic Development Bank) and a wide range of national banks widely varying in size – from the China Development Bank and the German KfW to small institutions in some developing countries. One of the great potential benefits is to act as a network of institutions, with multilateral banks supporting the activities of national banks. If the entities making up this network increased their lending by 20%, they could mobilize an additional \$400 billion a year; with leverage of private resources, this amount could be doubled (Griffith-Jones, Morodon and Ocampo, 2020).

During the North Atlantic financial crisis, multilateral development banks played an important counter-cyclical role, offsetting, at least partially, the contraction of private international financing (Ocampo et al., 2011). Furthermore, the counter-cyclical role that these institutions can fulfil was finally explicitly recognized by the banks and the economic authorities themselves. This lack of recognition had ignored the lessons of the past, which suggested that, in addition to the provision of liquidity by monetary institutions in times of crisis, it is equally important to provide official long-term financing to support public spending and public and private investment – the role precisely fulfilled by multilateral development banks.

²⁸ I refer to CAF as a regional bank, as this is reflected in the name of the institution adopted in 2010, although it kept the initials of its predecessor, the Andean Development Corporation. Its members are Latin American countries, with the exception of a few Central American ones (only Panama and Costa Rica are members) and some countries of the Caribbean, Spain and Portugal.



As a group, these institutions increased their credit commitments to emerging and developing countries by 71% between 2008 and 2009²⁹. Their disbursements grew by 45% in 2009 and continued to show dynamic growth in 2010. This lag in disbursements occurred despite the measures adopted to accelerate them: loan advances and fast track loans. The net disbursements (i.e. net of payments by countries to the multilateral banks) behaved in a less dynamic fashion, holding back the support to countries. It should be emphasized, however, that thanks to the changes in the policy for approving credits and the creation of a fast-track emergency disbursement fund, the IADB performed better than other multilateral banks. It was able to reduce the lag and strongly increase disbursements in 2009 – but the special facilities to address the crisis subsequently lapsed.

The World Bank responded with particular energy to the crisis, almost doubling its lending commitments, but, curiously, it was much more aggressive in its response to middle-income countries than to low-income countries, as reflected in the greater growth in loans by the International Bank for Reconstruction and Development (IBRD) than those of the International Development Association (IDA). This was also true for the multilateral banks as a whole, and was reflected in a decrease in credit commitments to low-income countries, from 32% in 2007 to 22% in 2009.

The response of the banks was conditioned in part by the limits on their capital. For this reason, as I pointed out, in the Plan approved at its meeting in London in April 2009, the G20 agreed to support the capitalization of the multilateral development banks. That of the Asian and African Development Banks was rapid and massive: a 200% increase in that year in both cases. That of the IADB, approved in March 2010, was less ambitious, gradual and less than hoped for by the Latin American and Caribbean countries: some 70%. That of the World Bank took place in April 2010, was even more modest, and formed part of a set of reforms aimed at increasing the participation of emerging and developing countries in the capital of that institution. (On the capital of these institutions, see Table 7 below).

This counter-cyclical response moderated, although it certainly did not totally offset, the impact of the strong fall in private flows to these countries. Another area in which they played an important role was the rapid provision of commercial credit services, which were used by a wide range of private banks.

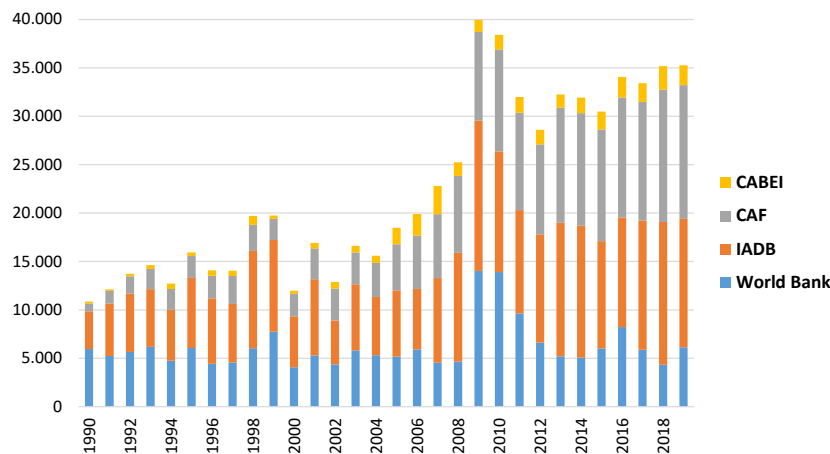
Two important lessons of the response of the multilateral banks during the North Atlantic financial crisis are, therefore, the need to have *ex ante* mechanisms for rapid disbursements during crises, and for greater automaticity in the repositioning of their capital. An alternative to accelerate disbursements which was used at that time and, as we shall see, has been used by some institutions during the current crisis, is to allow reassignment of credits already approved for other emergency purposes. Another could be to defer debt service with the institutions themselves – a practice which, however, could affect their credit ratings. It should be emphasized that rapid access to resources is particularly critical in the sphere of social protection, where the speed of delivery of resources is the essence of its effectiveness.

The relative importance of support by the multilateral development banks to Latin American countries has changed radically over recent decades. The World Bank played a lead role until the 1980s, supplying over half of loans. However, as shown in Figure 3, its loans to the region have not shown any increasing trend since the nineties. Nevertheless, the World Bank has continued to play a critical role during crises, as shown by the increase in loans to the region in 1998-99 and especially in 2009-10.

²⁹ These data and those which follow may be consulted in Ocampo et al. (2011), Figure 7 and Tables 11 and 12.



■ **Figure 3** Loans from multilateral development banks to Latin America (Million dollars)



Source: Respective institutions

The lead was taken over by the IADB in the nineties and subsequently by CAF and CABEL. The dynamic of CAF has been particularly important: representing barely a fraction of IADB loans to Latin American countries in the nineties, it came to emulate it, providing as much in the way of resources as the IADB in recent years. If the loans to the private sector by the Inter-American Investment Corporation are added to this, the IADB Group continues to be more important. It should also be pointed out that CAF is the only one of the four banks where there is not division between borrowers and non-borrowers and, thus, all its members can benefit from its credits. Although CABEL is a much smaller institution, it has special importance for the Central American countries: it represents about one fourth of the stock of multilateral loans to these countries (with the exception of Panama) and has been increasing its share, competing with the IADB in recent years as the major source of financing in the subregion.

It should be noted, however, that the response capacity of the World Bank and the IADB to the 2008-09 crisis was much more aggressive than that of CAF and CABEL. This suggests that, during periods of crisis, the implicit support of the developed countries, in particular the United States, facilitates access to capital markets on advantageous terms. Conversely, CAF and CABEL can find themselves partially affected by the closure of capital markets or the higher cost of credit for emerging economies during these periods.³⁰ It should be emphasized, however, that CABEL joined in the wave of bond issues by Latin American countries in recent weeks, selling a five-year bond for \$750 million on 29 April, the largest issue in its history, with a coupon of only 2%.

As shown in Table 7, in terms of authorized capital and equity, CAF was the bank which had the greatest growth between 2007 (before the onset of the crisis at that time) and 2019. Both CAF and CABEL were capitalized earlier than the World Bank and the IADB during the crisis; in addition, as we saw, the capitalization was gradual in the last two cases. In 2018, a new capitalization of the World Bank was approved: an increase in paid-up capital of the IBRD of \$7.5 billion and the International Finance Corporation (IFC) of \$5.5 billion. In addition, as a whole, the capital of the IFC has grown much more than that of the IBRD since the 2008-09 crisis (by 95%), based essentially on the reinvestment of profits. In turn, in December 2019, a capitalization of CABEL from \$5 to \$7 billion was approved, and finalized in April, so that it now exceeds CAF in terms of capital growth since 2007.

³⁰ CAF may now find itself affected by the fall in its credit rating which occurred at the end of 2019 because of its loans to Venezuela, despite the fact that these have been paid, as have those that the country had with FLAR, with the contribution of capital to the institution.



Table 7 Authorized capital and equity of the multilateral development banks that support Latin America (Million dollars)

	Authorized capital				Equity			
	IBRD	IADB	CAF	CABEI	IBRD	IADB	CAF	CABEI
2007	189.801	100.953	5.000	2.000	39.926	20.353	4.127	1.636
2008	189.801	100.938	10.000	2.000	41.548	19.444	4.554	1.708
2009	189.918	104.980	10.000	5.000	40.037	20.674	5.287	1.813
2010	189.943	104.980	10.000	5.000	37.555	20.960	5.753	1.929
2011	193.732	104.980	10.000	5.000	39.683	19.794	6.351	2.028
2012	205.394	116.880	10.000	5.000	36.685	20.681	6.865	2.142
2013	223.181	128.781	10.000	5.000	39.523	23.550	7.817	2.268
2014	232.791	144.258	10.000	5.000	38.985	23.697	8.763	2.396
2015	252.821	156.939	15.000	5.000	38.637	25.253	9.524	2.573
2016	263.329	170.940	15.000	5.000	37.063	26.460	10.474	2.723
2017	268.937	170.940	15.000	5.000	39.798	32.247	11.122	2.831
2018	274.730	170.940	15.000	5.000	41.844	32.929	11.863	3.198
2019	279.953	170.940	15.000	5.000	42.115	33.871	12.797	3.300
Growth 2007-19	47.5%	69.3%	200.0%	150.0%	5.5%	66.4%	210.1%	101.8%

Source: Respective institutions

All the banks which serve the region have adopted special support measures during the crisis: special lines to address the crisis, fast-track approval, although with modest resources: increases in the scale of credit programmes, within their capital restrictions: streamlining of credit approvals; and, in several cases, the possibility of reassigning credits already approved to the needs of the emergency. Beyond completing the capitalizations of the World Bank Group in 2018 and CABEI in 2019, there have not been any announcements of capitalization of the banks since the onset of the COVID-19 crisis.

According to the presentation by the President of the World Bank to the Development Committee on 17 April, the programme to tackle the crisis is based on three pillars: (i) protecting the poorest and most vulnerable households; (ii) supporting companies and saving jobs; and (iii) helping developing countries to implement emergency health programmes and strengthen economic resilience (Malpass, 2020b). Two important elements of the packages announced are the significant weight of resources destined for low-income countries – thus correcting one of the problems of the World Bank’s programme during the crisis a decade ago – and the emphasis on actions aimed at the private sector through the IFC, offering loans for international trade, support for working capital and medium-term financing to private companies that are struggling with interruptions of supply chains.

The immediate support package approved in mid-March made \$14 billion of new financing available to countries, in accelerated form: \$2.7 billion from IBRD, \$1.3 billion from IDA and \$8 billion from IFC (including \$2 billion of reassigned resources), and the prioritization of \$2 billion from the Group’s existing portfolio. The resources of the fast-track facility have already benefited five Latin American countries – Argentina, Ecuador, El Salvador, Honduras and Paraguay – in April, although with modest resources, which in total amounted to \$115 million (credits of \$20 million, except Argentina which was \$35 million).

Beyond the emergency programme, the Bank, at the end of March, approved a package of \$160 billion for the next 15 months. This amount means a substantial increase over the annual average of \$64.4 billion approved in



2009–10. This more extensive package includes emergency credits, which can be activated or added to existing projects, and the accelerated restructuring of countries' projects. Five Latin American countries have already benefited from this extended package in April: Bolivia, Colombia, Dominican Republic, Honduras and Panama.³¹ Combined with the emergency credits, Latin America has, therefore, received approval from the World Bank for \$695 million in April, which is above the monthly average in recent years, but still less than the monthly average amounts approved in 2009–10.

It should be highlighted that in March, the President of the World Bank expressed to the G20 the need to link recovery policy to structural reforms: "Countries will need to implement structural reforms to help shorten the time to recovery and create confidence that the recovery can be strong. For those countries that have excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles, we will work with them to foster markets, choice and faster growth prospects during the recovery." (Malpass, 2020a). This association is unfortunate, given the recent rejection by many emerging and developing countries of this view, and the minimal relationship that it has with the economic emergency, where the universal pattern has been increased state intervention.

The programme announced by the IADB to tackle the crisis started from the principle that the virus affects not only people's health, medical services and hospital care, but also the economy, the survival of many companies, family finances and, if not properly managed, it can generate a social crisis. It established four priorities: (i) immediate public health responses; (ii) measures to protect the incomes of the most affected population groups through existing transfer programmes, and extraordinary transfers to workers in the informal sector and companies particularly affected by the crisis; (iii) assistance to SMEs, through credit facilities, guarantees of liquidity, financing of foreign trade, restructuring of loans and support for supply chains; and (iv) support for countries in the design and implementation of fiscal measures to finance the response to the crisis, continuity plans for the execution of public spending and procurement, and measures to contribute to economic recovery.

The programme includes an adjustment of its credit lines and streamlining of approval processes. In terms of resources, it includes the allocation of an additional \$3.2 billion to the programme initially stipulated for loans in 2020. These resources, added to the available programmed resources make up to \$12 billion available to countries which can be used to deal with the health crisis and the economic effects stemming from the pandemic. This amount, however, would be very similar to the annual average credits in recent years, so that, more than the amount, the priority has been the reassignment of resources to support the battle against the pandemic. In immediate terms, it has also offered countries the possibility of reassigning already approved loan resources to the new priorities generated by the emergency, in an amount equivalent to 10% of each loan or up to \$50 million (whichever is greater). The private portfolio of the Inter-American Investment Corporation amounts to a further \$5 billion and includes lines of support to financing of production chains and trade, and to support banks in a context of severe liquidity constraints.

Added to all this are the technical cooperation resources, both their own and from non-regional partners, which give priority to platforms for exchange and learning, and development of a menu of prototype projects to provide immediate responses to the specific demands of countries. Analyses of the effects and alternatives to address the various dimensions of the crisis, which are published in the IADB Research Department series, "Ideas Matter", have also made a very important contribution.

For its part, CAF is assisting in the emergency with four specific actions in terms of credit. The first is a contingent line of credit, approved at the beginning of March, of up to \$300 million to respond flexibly to the needs of public

³¹ Bolivia, with a reassignment of \$20 million of an existing credit, Colombia with a contingent loan for \$250 million, Dominican Republic with a programme of emergency measures for \$150 million, Honduras with a loan of \$119 million for disaster risk management and Panama with one of \$41 million for development policies.



health systems: these resources allow support of up to \$50 million per country. The second is a rapid disbursement emergency credit line approved at the end of March of up to \$2.5 billion, to speed up approval of operations that support the emergency measures which are being adopted by countries. The third is the possibility of reprogramming existing credits, including allowing changing their objective and destination. The fourth is the priority given to working with national development banks to support SMEs. It is not clear, however, that CAF can increase its credits substantially above the high levels which it achieved both in 2018 and 2019, the highest in its history, and which were leveraged by the capitalization of the entity in 2015.

Added to this are the non-reimbursable technical cooperation resources of up to \$400,000 per country, from which several member countries have already benefited. These resources are intended to ensure the safety of people working in prevention, containment and care of COVID-19 patients and the purchase of basic supplies.

Finally, on 31 March, CABI launched its Programme of Emergency Support and Preparation in the face of COVID-19 and Economic Recovery to the value of \$1.96 billion. In terms of credit, it comprises three components: \$1 billion in credits to support the management of the liquidity of the central banks of regional founder and non-founder members,³² \$600 million of emergency budgetary support, and \$350 million to provide support for liquidity in a country's financial sector with the objective of supporting micro and SMEs. It should be emphasized that, unlike the IADB and CAF, the recent capitalization of the entity and the bond issued at the end of April allow it to significantly increase credits, up to some \$3 billion, which means growth of 45% in relation to the average achieved during the last few years.

The rest of the emergency programme is made up of non-reimbursable resources: \$8 million for emergency activities of the Central American Integration System (SICA), \$2.1 million for the purchase of testing kits, medicines and medical equipment for the detection of COVID-19, and \$25,000 for prevention and contingency campaigns in the Trifinio region (El Salvador, Honduras and Guatemala).

Finally, it should be emphasized that the net contribution of the multilateral development banks will be less, due to the delays in disbursements of approved credits and the amortization of previous debts by countries. This also happened, as we saw, in 2009. Thus, overall, and in the absence, in particular, of additional capitalizations of IADB and CAF, the resources provided by the multilateral banks to Latin American countries will increase modestly in comparison with the response to the North Atlantic financial crisis, despite the fact that the effects of the current crisis are stronger. For this reason, actions in this field, as on the monetary front, must be substantially reinforced to tackle the severe economic and social problems generated by COVID-19.

7. Conclusions

The current economic crisis will be remembered not only for being the worst since the Great Depression and one in which the domestic policies adopted by the developed countries were ambitious, but also by the limited multilateral financial cooperation agreed. This is true, in particular, of the measures to support middle-income economies. The actions in favour of low-income countries have been stronger, but also insufficient. Clearly, multilateral action has been far from the "whatever it takes" approach to which the G20 Heads of State committed at the end of March.

In terms of international monetary cooperation, the most frustrating has been the refusal to issue SDRs by the IMF, the lack of a decision and even proposals to advance the increase of IMF quotas, and the lack of collective mea-

³² The regional founder members are Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, and the regional non-founder members are Panama, Dominican Republic and Belize.



asures to tackle the flight of capital from the emerging economies and to halt the reduction of credit ratings by the agencies concerned. Latin American countries have benefited from the IMF emergency credit lines, although with resources that are modest, but can access other credit facilities of that institution if they so wish. The eight member countries of FLAR also have the possibility of accessing the support of that regional organization. The crisis must give rise to an initiative to expand the membership of this regional body.

In terms of foreign debt, a diverse approach would be useful which supports ambitious restructuring of foreign debt of those countries that need it (Argentina and Ecuador, in particular) and create a voluntary supervised multilateral mechanism for a debt standstill for those countries that require it. In addition, the early recovery of the bond market of emerging economies since mid-April is good news, and has allowed access to private funds for several Latin American countries and public sector firms, as well as for CABEL. It should be added that, beyond the short-term actions, it is essential to put back on the table the need to negotiate the creation of an institutional mechanism to renegotiate sovereign debts.

The multilateral development banks that serve the region have created various emergency credit lines to tackle the crisis, streamlining procedures and several of them have allowed rechanneling of some already approved credits to support measures adopted by countries to tackle the health, social and economic emergencies generated by COVID-19. The most dynamic has been CABEL, supported by a recent capitalization. The World Bank has also increased its credits to the Latin America, although they are still lower than those financed by that institution during the previous crisis. The two principal multilateral banks for the region, IADB and CAF have also taken important measures, but they face lending limits and need to be capitalized to support the countries of the region during the crisis in a more aggressive way. As a whole, in terms of resources, the support by the multilateral banks to Latin American countries programmed to date is insufficient.

It should be remembered, finally, that the economic problems of a wide range of Latin American countries were already acute during the years preceding the current crisis, and that the slow growth during those years put a brake on and reversed in part the improvement in social indicators which had been experienced since the start of the century. Moreover, economic growth in the region has been slower in the past three decades than during the three decades prior to the debt crisis, and the region continues to be characterized by multiple social problems, among them having one of the worst income distributions in the world, The crisis, in addition, will leave a negative legacy in terms of growth in the world economy and international trade, and fewer opportunities for Latin American migrants, among other adverse effects.

Over and beyond the crisis, it is necessary, therefore, to reformulate the region's development strategy, some elements of which must be a determined drive to scientific and technological development, re-industrialization, a strong and depoliticized support for regional integration, a firm commitment to the reduction of inequality and an important contribution to global efforts in environmental matters, both combating climate change and protecting biodiversity. For all these issues, which go beyond the objectives of this essay, the support of the development bank system will also be critical.



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We acknowledge the kind support of the Spanish Cooperation.

