IMF, World Bank Face Deluge of Aid Requests From Developing World

Scores of countries are asking for bailouts and loans from financial institutions with $1.2 trillion to lend

By Josh Zumbrun and David Harrison
April 9, 2020

The health of the global economy comes down to a race between money flooding out of emerging markets amid the coronavirus pandemic and the efforts of the International Monetary Fund and World Bank to pump money back in.

The two Washington-based finance institutions find themselves facing the greatest challenge since they were established as the heart of the international monetary system at the 1944 Bretton Woods Conference. The IMF's seminal mission was to safeguard global financial stability to prevent a repeat of the Great Depression, while the World Bank's was to rebuild the war-ravaged economies of Europe.

"We're looking at a commodity-price collapse and a collapse in global trade unlike anything we've seen since the 1930s," said Ken Rogoff, the former chief economist of the IMF, now at Harvard University. An avalanche of government-debt crises is sure to follow, he said, and "the system just can't handle this many defaults and restructurings at the same time."

"It's a little bit like going to the hospitals and they can handle a certain number of Covid-19 patients but they can't handle them all at once," he added, referring to the disease caused by the new coronavirus.

More than 90 countries have inquired about bailouts from the IMF—nearly half the world's nations—while at least 60 have sought to avail themselves of World Bank programs. The two institutions together have resources of up to $1.2 trillion that they have said they would make available to battle the economic fallout from the pandemic, but the question is whether they can move quickly enough to reverse the mounting damage.

Since January, about $96 billion has flowed out of emerging markets, according to data from the Institute of International Finance, a banking group, more than triple the $26 billion outflow during the financial crisis of a decade ago.

"We anticipate the worst economic fallout since the Great Depression," Kristalina Georgieva, the managing director of the IMF, said Thursday. "The bleak outlook applies to advanced and developing economies alike. This crisis knows no boundaries. Everybody hurts."

Ms. Georgieva said that three months ago, the IMF was expecting per capita incomes to grow in 160 of the IMF's 189 member countries, but now said the IMF expects per capita income to shrink in 170 countries.

The IMF's leader delivered the speech via video in advance of the spring meetings of the IMF and World Bank—being held virtually next week, after the in-person gatherings were cancelled due to the coronavirus. She outlined the coronavirus response the IMF was taking and which would be the focus of the meeting discussions.

She said that the IMF's executive board, comprised of representatives from the member countries, had agreed to double the capacity of two IMF emergency lending programs, created in the aftermath of the global financial crisis, which can provide money with relatively few strings attached.

The first program is a Rapid Credit Facility, which offers zero-percent emergency loans to low-income countries and has been previously used to respond to natural disasters and the Ebola epidemic. The second, a Rapid Financing Instrument, has an interest rate of about 1.5%.

The IMF doubled the size of the facilities from $50 billion to $100 billion, she said. Countries have already made requests to tap about $20 billion, according to senior IMF staff. The money has started to flow—$120 million to Kyrgyzstan, $166 million to Madagascar, $109 million to Rwanda, $143 million to Honduras, $115 million to Chad.

The World Bank has fast-tracked 27 loan requests specifically for coronavirus responses, with around 40 more in its pipeline. Early projects include funds for Ethiopia to buy medical equipment, for Mongolia to train additional health-care workers, and for Cambodia to establish labs and isolation and treatment centers in 25 provincial hospitals.

In the largest program announced to date, India will receive $1 billion from the World Bank for screening, contact tracing and laboratory diagnostics, to produce personal protective equipment, and to set up isolation wards.

The IMF's chief economist, Gita Gopinath, has said a global recession in 2020 will be even more severe than the last one.

Oxfam International, a global nonprofit organization, estimates that more than half a billion people around the world could fall into poverty, defined as earning less than $5.50 a day.

"The devastating economic fallout of the pandemic is being felt across the globe," said José María Vera, Oxfam's interim executive director. "But for poor people in poor countries who are already struggling to survive, there are almost no safety nets to stop them falling into poverty."

While the world's largest economies have the ability to finance trillion-dollar stimulus programs and have central banks that can launch vast bond-buying programs, many middle- and low-income countries face no easy options.

“At a time when the financial needs of these countries are going up, the availability of domestic and international finance is shrinking,” said Eswar Prasad, a professor at Cornell University and a former IMF economist. “This is the real test of whether the global safety net is going to work for these economically vulnerable countries.”

Typically, IMF and World Bank loans and programs can take months to establish, with officials of the lenders traveling to the countries for negotiations over the terms and conditions of the programs.

The pandemic has already upended this practice. Staff of the two institutions have been working from home for nearly a month since an IMF employee was diagnosed with Covid-19, and nearly all travel has ceased, replaced with Webex meetings at all hours of the day and night to accommodate the time zones of member countries.

Unlike usual IMF rescue packages, which often make loans contingent on policy reforms—such as deficit reduction, improved tax collection and anticorruption efforts—the institution can send out money with fewer of the usual conditions, analysts said.

“Everyone understands that this is to a large extent is not caused by bad policies for the most part, and therefore we shouldn’t impose onerous restrictions,” said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics and a former top Federal Reserve and Treasury Department official.

David Malpass, the World Bank’s president, said his institution would devote $160 billion to combating the pandemic’s effects.

Countries can also turn to traditional IMF programs that can draw on its full resources of nearly $1 trillion.

That trillion dollars in lending ability should be sufficient for developing and emerging economies if the virus is brought under control in the medium term, said David Dollar, a former World Bank and Treasury Department official, now at the Brookings Institution.

“I think they have the resources for 2020. A key question is going to be to what extent this whole public-health crisis continues on in 2021,” Mr. Dollar said.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com and David Harrison at david.harrison@wsj.com

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