Policy Responses to Covid-19: How Changes in the Bretton Woods Institutions' Approaches Can Lead to a Sustainable and Inclusive Recovery

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The world economy has experienced a sharp economic contraction as a result of profoundly negative impacts associated with the COVID-19 crisis. Estimates so far indicate that the coronavirus could damage global growth to -4.9% in 2020 and exacerbate global inequalities[1]. In response to the crisis, the Bretton Woods institutions of the IMF and World Bank have put in place a variety of measures to help alleviate adverse effects on the global economies[2]. Chief among these includes: the IMF's emergency financing facilities, the World Bank's emergency funding.

Although policy measures adopted by these institutions can help cushion the negative effects of the pandemic, there have been mounting criticisms against the IMF and World Bank's approaches in dealing with the COVID-19 shock. Collectively, the responses to the crisis by the Bank and Fund have been viewed as being unable to take appropriate actions in a troubled environment and respond in innovative ways to the need of their members, especially those of emerging market and low-income countries that have been hard hit by the pandemic[3]. To recover better from COVID-19, the IMF and World Bank need to urgently revise some of their principles that have been claimed to be misguided policy making during the pandemic in order to deliver greater influence for people's well-being and sustainable growth. This requires changing some elements of the Bretton Woods institutions' approaches in the following three related areas.

First, the World Bank's emergency funding and the IMF's COVID-19 financing need to be implemented in such a way that they have collectively allowed emerging and developing economies to gain better access to the Bank and Fund's lending facilities. As documented elsewhere, policy responses to the crisis by the IMF and World Bank were seen as being "too small and too slow" to cushion the pronounced impact from the COVID-19 shock. These can be reflected in part by the substantially lower levels of lending volume of only 12% of their current capacity and by the reluctance of many emerging markets and developing economies to participate in the IMF's financial assistance program[4]. The withdrawal of a contentious austerity proposal by Costa Rica's president Carlos Alvarado is a good example in this regard.

Second, the Bretton Woods Institutions need to revive their approaches of fiscal consolidation measures for developing countries. Recovering this time will need to follow a different path, focusing on strong, sustainable and inclusive recovery through the use of expansionary macroeconomic policies to boost aggregate demand to stimulate the economy[5]. The IMF needs to reconsider its approach that requires countries to engage in austerity as part of the government's effort to secure an IMF loan. Joseph Stiglitz Nobel Prize-winning economist pointed out that policies governing austerity measures will need to be adapted to protect vulnerable people and support the recovery. According to Stiglitz, there will be no sustainable recovery if developing countries are still required to take part in "austerity measures" as conditionality in their search for multilateral assistance[6].

Finally, it is time now for leading multilateral institutions to commit to a coherent approach to debt restructuring for emerging markets and low-income countries. The G20 countries' initiative for a six-month extension of debt service payments and the World Bank's "Maximizing Finance for Development (MFD)" approach are seen as having minimal impact on enhancing debt sustainability for countries with limited fiscal space and excessive debt[7]. Recent researches indicate that the present debt-relief mechanisms for emerging markets, particularly the Bank's MFD scheme, have been unable to alleviate international liquidity shortages in developing economies and channel resources to tackle the COVID-19 crisis[8]. Views expressed by the World Bank President David Malpass and prominent economists suggest that the G20 and the World Bank Group need to put forward comprehensive proposals to mitigate debt distress, as this will help "pull private capital back to emerging markets", thereby enhancing liquidity and the capability of these countries to better respond to the post-pandemic world.

In light of the considerable risks that cloud the global recovery, it is imperative that the IMF and World Bank cannot resort to the "policy as usual" approaches as previously adopted during the pandemic. Instead, they need to quit their push for "austerity as the new normal" and shift their policy focus toward facilitating resilience and recovery for vulnerable and poor countries. Only through these ambitious changes in the Bretton Woods institutions' approaches and the resultant expansion of world economy can the living standards across all regions be improved to the levels which will promote the full realization of prosperity for all.

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