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FORMULATION OF STRATEGY, OUTLOOK, AND POLICY ADVICE[3]

Roadmap. This section describes the formulation of the Fund's strategy to help countries cope with the effects of the pandemic (Section II.A), baseline forecasts and risks to the outlook (Section II.B), and policy advice (Section II.C), followed by a combined assessment of all three—strategy, outlook, and advice (Section II.D). Though discussed in separate sub-sections, these three strands were obviously intertwined, with the Fund's evolving view on the outlook informing its financing strategy and policy advice.

A. IMF STRATEGY

Formulation of a crisis-response strategy. As evidence emerged that there was a major public health shock underway, the MD quickly emphasized the need to "act early, boldly, and comprehensively."[4] Amid uncertainty and evolving views about the shock's economic impact and projected need for Fund financing, staff began to shape a response strategy along four fronts:

(i) *The use of existing emergency facilities as the main channel for Fund financing.* The Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) (which provides financing on concessional terms for LICs) were seen as the best suited financing instruments since quick action was needed by the Fund to support a broad swath of the membership and at least for most countries the BOP gaps were not the result of recent policy actions that needed correction. It was considered that UCT arrangements, with ex post conditionality, would be hard to design and put in place in the context of a highly unpredictable and fast-moving global emergency. Staff did not consider a new pandemic facility at this stage as part of the strategy since this too would take time to put in place and the existing set of facilities was seen as flexible enough to meet the needs of member countries.

(ii) *Provision of back-up financial support through precautionary facilities, including a new instrument.* Though past use had been low, it was felt that these facilities, such as the Flexible Credit Line (FCL) and the Precautionary Liquidity Line (PLL), offered a useful source of back-up financing for countries that qualified for access on the basis of their high standard policy framework and record. Moreover, a new Short-Term Liquidity Line (SLL) was proposed based on a design that had already been thoroughly debated in 2017 although not put in place.

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[3] This section draws on background papers by Ocampo and others (2023), Loungani and others (2023), and Batini and Li (2023).

[4] Awareness of the potential macroeconomic impact of a pandemic had also been raised by a symposium with outside experts in February 2019.

(iii) *A push for a Special Drawing Rights (SDR) allocation*. Though perceived as unlikely to succeed given the well-known opposition of some large shareholders, it was felt that a chance should be taken because such an initiative could provide significant relief to a wide range of cash-strapped countries (including some not meeting the requirements for EF). While it was recognized that this would likely require a long and complex process, it was felt that "at times of crisis, political constraints sometimes move."

(iv) *Steps to alleviate debt burdens through debt service relief and debt operations where necessary*. The main emphasis was on providing cash flow relief to help meet obligations falling due, including helping the very poorest countries meet obligations to the Fund through the Catastrophe Containment and Relief Trust (CCRT), as well as through a more widely available G20 Debt Service Suspension Initiative (DSSI). It was recognized that some countries would eventually need debt stock restructuring, but this would take time to achieve.[5]

Consultation with the membership and partners. Following a conference call with the International Monetary and Financial Committee (IMFC), the MD announced on March 4, 2020, the availability of $50 billion in support through the Fund's EF instruments. Another conference call with the IMFC took place on March 27 to discuss the Fund's strategy. Interactions with the Board to discuss the Fund's strategy occurred in March through three informal briefings—on March 2, 10, and 26—and a note prepared for the April G20 meeting which outlined possible Fund actions was shared with the Board. The Fund's MD and the World Bank President worked together during March to urge the G20 to provide debt relief for low-income member countries, and the MD engaged actively with heads of UN agencies to exchange information on their respective assessments of the pandemic and plans to help countries.

Enhancing the Fund's emergency financing toolkit. Initial consultations were followed by formal Board discussions during April 2020 ahead of the Spring meetings. On April 6, the Board approved an increase in EF access limits, initially for six months, with annual limits for both the RFI and RCF rising from 50 percent to 100 percent of quota, and cumulative limits rising from 100 percent to 150 percent the quota. During the internal review in March, some area departments urged that the Fund could go further right away (for example, in extending the period of the increase beyond six months), and others suggested that the Fund should signal that additional steps would be forthcoming. However, the consensus among staff was that an incremental approach was preferable in the face of uncertainty and more likely to gain support from the Board. The Office of Risk Management (ORM) also supported a gradual approach, noting that the Fund's strategy had to balance the "reputational risk" if the Fund did not provide timely assistance to the membership at a time of evident balance of payments (BOP) need with the operational and credit risks for the Fund from raising access levels.

Approval of SLL. On April 9, the Board approved the SLL, a new renewable credit line without ex post conditionality, to expand the Fund's precautionary toolkit to help countries with very strong fundamentals and policy frameworks (the same high standard as required for the FCL) meet potential, short-term, moderate BOP needs.

Lack of consensus on a SDR allocation. The Staff made the case that the COVID-19 pandemic had led to a long-term global need to supplement reserve assets and that an SDR allocation would provide a means for a significant injection of liquidity to all members. In the end, however, the proposal for a general allocation did not garner sufficient support from major shareholders. In May 2020, staff worked on a proposal on options for reallocating existing SDRs from economies with strong external positions to member countries in need "in amounts that would mirror the outcome of a general allocation of SDRs to certain target groups." However, this proposal too failed to gain sufficient support from the Board.

Additional steps taken by Spring Meetings 2020. When the IMF's membership met virtually for the 2020 Spring Meetings in mid-April, the main elements of the IMF's response were largely in place. In addition to the scaling up of access limits on EF and the launch of the SLL,

[5] A Common Framework for Debt Treatment beyond the DSSI was launched by the G20 in November 2020.

the Fund took steps toward: (i) a revamped CCRT to provide relief on debt service owed to the Fund by the poorest member countries; (ii) developing a fundraising strategy to increase the Poverty Reduction and Growth Trust's (PRGT's) loan and subsidy resources to ensure that the Fund could continue supporting LICs during the pandemic and thereafter in the recovery phase; and (iii) a strategy to secure the lending capacity of the Fund's GRA by extending the New Arrangements to Borrow (NAB) and obtaining new bilateral borrowing agreements.

Increases in GRA and PRGT access limits. In July 2020, recognizing the continuing impact of the pandemic and to allow for a shift to UCT arrangements as many countries had already reached limits on EF, the normal annual access limit (NAAL) to GRA resources was increased from 145 percent of quota to 245 percent and the NAAL to PRGT resources from 100 percent to 150 percent. The increases allowed countries to access additional UCT financing without triggering application of the exceptional access framework—which would involve more rigorous approval procedures, monitoring and conditionality. These changes were introduced on a temporary basis through April 2021. However, the cumulative access limits were not adjusted, to leave in place the additional protections from exceptional access requirements for countries seeking high total access to IMF resources. The IMF also suspended until April 2021 the limit on the number of disbursements under the RCF within a 12-month period.

Lending options for the next phase. In the run-up to the October 2020 Bank-Fund Annual Meetings, staff's attention turned from the strategy to contain the immediate impact of the crisis to the strategy for the stabilization phase. In late September 2020, staff presented four options, which were not considered mutually exclusive, for the Board's consideration: (i) undertaking a second round of EF (i.e., lifting further RCF/RFI access limits); (ii) using flexibility under the existing lending toolkit; (iii) establishing a temporary pandemic window under the Extended Fund Facility (EFF); and (iv) establishing a temporary Pandemic Support Facility. Among these options, staff leant towards the establishment of a new temporary pandemic facility. Although many Directors—including some of the major shareholders—supported this option or the establishment of a temporary pandemic window under the EFF, in the end neither option commanded a consensus within the Board. It was agreed that the transition to the stabilization phase would be handled within the flexibility already offered by the Fund's existing financing instruments. This required two further extensions of access limits, in October 2020 and March 2021.[6]

The Fund's surcharge policy. There were active internal discussions on a potential relief of surcharges in late spring of 2020. This work was not pursued further after a critical mass of shareholders signalled in informal consultations that they were unlikely to support such an initiative. Directors noted that the surcharge policy played an important role in allowing the Fund to accumulate precautionary balances and discouraging large and prolonged use of IMF resources, while staff observed that the total cost of borrowing from the Fund during the pandemic remained low, especially in comparison to market financing. When it became clear that the impact of the COVID-19 shock would be more prolonged, a new round of internal consultations took place in mid-2021, which culminated in an informal Board meeting to engage in September and a further discussion by the Executive Board in December 2021 in the context of the interim review of precautionary balances. These meetings confirmed that the broad support (70 percent of voting power of the Board) needed to amend the policy was not forthcoming.

B. GROWTH AND INFLATION OUTLOOK

The IMF's forecasting process. The IMF's global forecasts are reported in the World Economic Outlook (WEO), issued in April and October each year, with two updates in January and July. The process is generally kicked off by a memorandum from the Research Department (RES) to country desks laying out key global assumptions—such as assumptions about growth in the major economies and the outlook for commodity prices—that country desks have to respect in making their forecasts. The forecasts eventually released in the WEO reflect an intensive and iterative process of balancing of top-down guidance and country-specific information. While forecasts

[6] In December 2021, while the higher cumulative access limits under the emergency financing instruments (EFIs) were extended for 18 months, other temporarily increased access limits were returned to their pre-pandemic levels from January 1, 2022 onwards (and in the case of the PRGT normal access limits to levels agreed in July 2021).

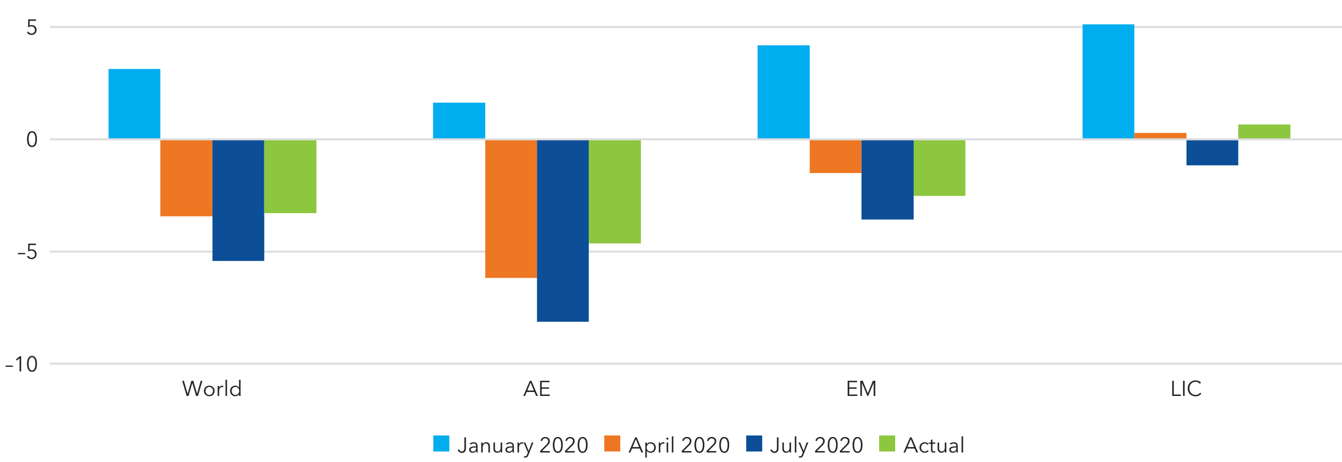
are kept under continuous review, particularly for the largest economies, and individual country forecasts can be revised at times of Article IV consultation and programs, the IMF tries to make the WEO reports the main source of public dissemination of its global forecasts.

Initial estimates of hit to global growth. The January 2020 WEO update did not mention the pandemic. But, as already indicated, by mid-February, staff had become highly concerned about the likely effects of the pandemic and country desks for the major economies were starting to consider how their baseline forecasts would need to be revised. There was also intense interest in policy and media circles on the IMF's revised assessment of the global outlook. Hence, rather than wait until the release of the April 2020 WEO, the IMF offered an initial Joint Statement with the Chair of IMFC on March 27 that global output would contract in 2020, with a subsequent G20 surveillance note estimating the decline at 3 percent.

Increased top-down guidance. In an environment where information about the spread and likely impact of the pandemic was changing almost daily, the February and March framing memorandums from RES on the Spring WEO round went beyond the typical top-down guidance. The Economic Counsellor noted that RES's views were guided by "numerous conversations" with epidemiologists and public health officials on the likely spread and duration of the epidemic. Noting that several EM country desks "appear not to have factored in … large disruptions into their projections," RES's memorandum stated that "we expect [these] desks to lower the 2020 growth forecast [relative to the pre-pandemic forecast] by no less than 5 percentage points, which is the expected revision for advanced economies." Desks were urged to consider the number of days of work lost in their countries and use that to calibrate the likely loss in GDP. While no explicit top-down guidance was provided on how the impact of lockdowns on economic activity might differ between advanced and other economies, country desks in the largest emerging market economies (EMEs) were nevertheless urged to consider substantial downward revisions to their forecasts taking account of spillover effects from the collapse in trade and supply chain disruptions.

Evolution of IMF's 2020 global growth outlook. The forecasts released in the April 2020 WEO reflected this guidance. At this time, the Fund's baseline forecast was for about a 3 percent decline in world output in 2020 (more than 6 percentage points below the January 2020 pre-pandemic baseline). In May, increasing evidence of the pandemic's impacts on the AEs led to further sharp downward revisions in growth forecasts, particularly for the G-7 economies. RES's May 2020 memorandum on global assumptions urged other country desks to similarly "consider projecting stronger hits" to economic activity in their countries. Hence, by the time of the summer 2020 WEO update—released a month earlier than normal in June in light of the fast-moving situation—the Fund was considerably more pessimistic than in April and projected nearly a 5 percent decline in world output in 2020 (Figure 2).

FIGURE 2. FORECASTS FOR GROWTH IN 2020—WORLD AND COUNTRY GROUPS



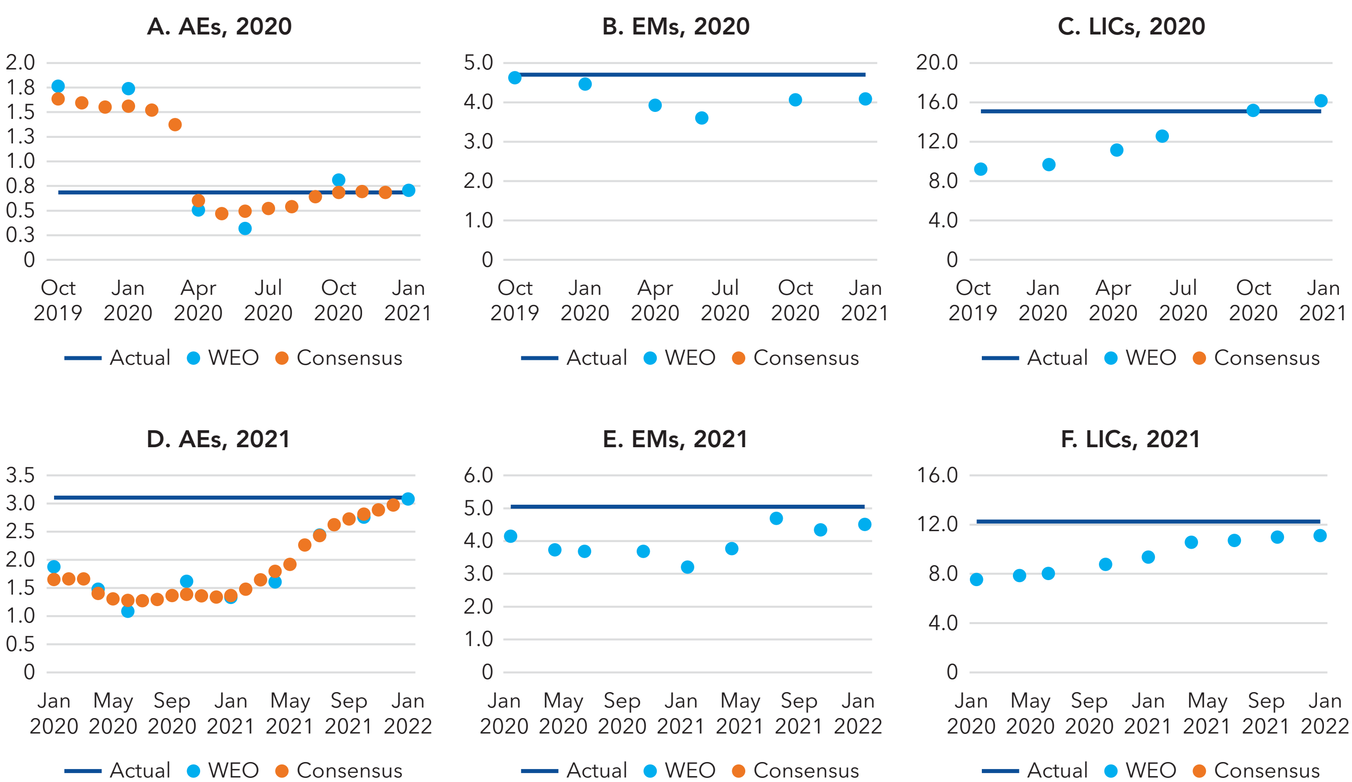
Source: Loungani and others (2023).
Note: Aggregates are constructed using GDP weights (PPP-based) for countries.

Recalibration of growth outlook. Over the coming months, however, even as the pandemic exerted a heavy death toll, its economic impact on the AEs appeared less severe and extended than initially expected. RES's guidance to country desks in preparation for the October WEO was to "assume a gradual recovery" in the third quarter of 2020 and also to assume—based again on conversations with epidemiologists and experts at the World Health Organization—that the public health response would move from stringent lockdowns to ramped-up testing and tracing, thus mitigating the impacts on economic activity. Reflecting these developments and assumptions, the IMF's October 2020 global growth forecast dialed back the pessimism expressed in June. This was driven by revisions to the forecasts for AEs, while for EMs and LICs the forecast revisions between June and October 2020 WEO were quite small (see Figure 2).

Outlook for 2021 recovery. Even in June 2020, as IMF forecasts for the year grew more pessimistic, the Fund's forecast for 2021 was that global growth would rebound to 6 percent as the economic drag from the pandemic dissipated. Subsequent editions of the WEO recalibrated this projection but the changes were small, particularly for the AE and EM country groups. For LICs, the pattern was different: forecasts for 2021 were almost steadily marked down, reflecting the greater constraints in their policy responses and in accessing effective vaccines.

Inflation forecasts. In internal notes, staff debated whether "supply breakdowns combined with large fiscal deficits and monetary financing would lead to a resurgence of inflation," despite the collapse in demand. Staff reasoned that in AEs, the impact of the demand collapse would dominate and lead to a drop in inflation rates. In contrast, in developing economies, where some countries were "witnessing sharp currency depreciations and without well-anchored inflationary expectations, inflation may spike despite the collapse in demand." Staff turned out to be broadly justified in this judgment as far as the forecasts for inflation for 2020 were concerned. Inflation fell in AEs and rose in LICs, on average by as much as staff's forecasts; inflation in EMs was not much affected on average (Figure 3, top panel).

FIGURE 3. EVOLUTION OF INFLATION FORECASTS FOR 2020 AND 2021



Source: Loungani and others (2023).

However, the inflation forecasts for 2021 turned out to be optimistic for AEs, EMs, and LICs, as the impact of supply bottlenecks combined with some recovery in demand amidst continued macro policy support brought about a widespread resurgence in inflation (Figure 3, bottom panel).

Scenario analysis. Recognizing the extreme uncertainty associated with the baseline forecasts during the pandemic, WEO reports in April 2020 and after provided extensive scenario analysis of the impact of the pandemic, almost always presented in a special "Scenario Box." For instance, even as the IMF's baseline forecast for 2020 growth grew more pessimistic, the June 2020 update discussed the upside risks from the possible "development of a safe, effective vaccine." In a similar vein, even as prospects were improving, the April 2021 WEO considered a downside scenario where supply bottlenecks in production and other logistical problems with delivering the vaccines would significantly delay reaching herd immunity.

C. POLICY ADVICE

IMF policy monitoring and advice. IMF policy advice is typically provided through Article IV consultations (which cover both bilateral and multilateral surveillance) and multilateral surveillance reports, including the WEO, the Fiscal Monitor (FM), the Global Financial Stability Report (GFSR), and inputs to the G20 process. The Fund's reprioritization to meet emergency needs meant that staff work on Article IV consultations was temporarily suspended, but Fund staff reported in interviews that they remained in close contact with country authorities to assess the pandemic's impact and provide advice (IMF, 2020). In addition, staff provided advice through a Special Series of notes on policies to address the challenges posed by the COVID-19 pandemic. These notes were greatly appreciated by country teams and authorities, though both felt that greater granularity of advice would have been welcome in some instances. The IMF also introduced widely appreciated policy trackers to share information on countries' policy choices across a wide range of countries.

Fiscal policy advice. The IMF's multilateral surveillance reports in April 2020 noted the human cost of the pandemic and urged that "government responses should be swift, concerted, and commensurate with the severity of the health crisis, with fiscal tools taking a prime role" (IMF, 2020d). Countries were encouraged to step up fiscal support spending both on necessary health interventions and in supporting vulnerable businesses and families. An accompanying blog co-authored by the Director of the IMF's Fiscal Affairs Department (FAD) stated what became an oft-cited characterization of the IMF's fiscal policy advice: "… fiscal policy is key to save lives and protect people. Governments have to do whatever it takes. But they must make sure to keep the receipts" (Gaspar, Lam, and Raissi, 2020).

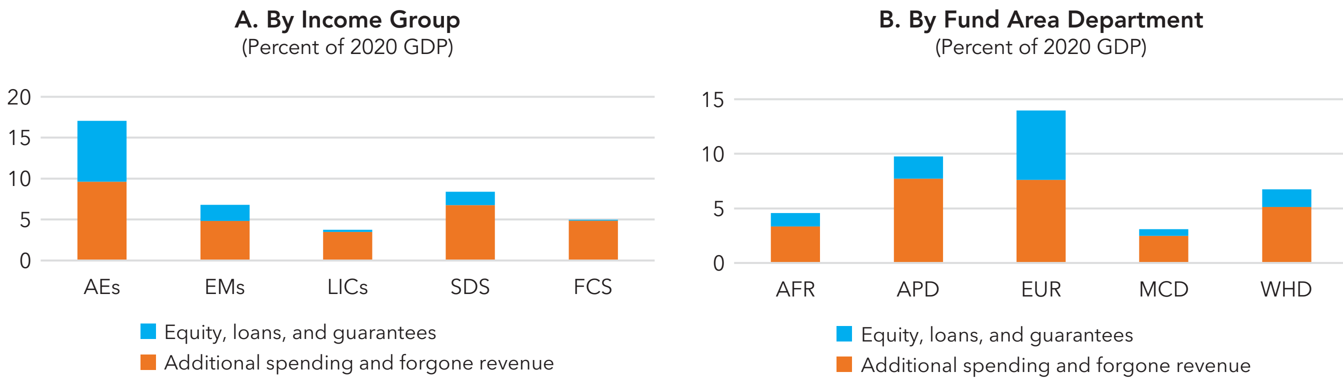
Advice for country groups. The April 2020 FM recognized that the fiscal room to do "whatever it takes" would differ across country groups, with AEs in general better placed than others (IMF, 2020d). The FM concluded that many EMs had the space to provide fiscal support, and a number of them had already announced new fiscal packages or adjusted existing fiscal programs in response to the needs of the pandemic. LICs were the most constrained in their fiscal space, and hence the FM emphasized the importance of international financial support in helping these countries carry out the Fund's policy advice. The extent of fiscal support did end up varying across country groups, with AEs providing much more ample support than other country groups (Figure 4).

Caution against premature withdrawal of fiscal support. As health, economic and inflation conditions evolved, fiscal advice in subsequent issues of the Fiscal Monitor gradually moved to advising a less expansionary stance, while cautioning against withdrawing support too quickly until recovery seemed secure. Specifically, by the time of the October 2020 FM, when economic prospects looked more promising in many countries than they had mid-year, the Fund emphasized "the importance of not pulling the plug of fiscal support too soon, in spite of the high levels of debt prevailing worldwide" (IMF, 2020k). The January 2021 FM update stated that policymakers should balance risks from large public debt "with the risks from the premature withdrawal of fiscal support, which could slow the recovery."

IMF's fiscal balance outlook. Based on its growth forecasts, the IMF expected a sharp collapse in government revenues during 2020, while there would be increased pressures on government spending, even if not all countries had the ability or willingness to go along fully with the

FIGURE 4. DISCRETIONARY FISCAL RESPONSE TO THE PANDEMIC

(In percent of 2020 GDP)



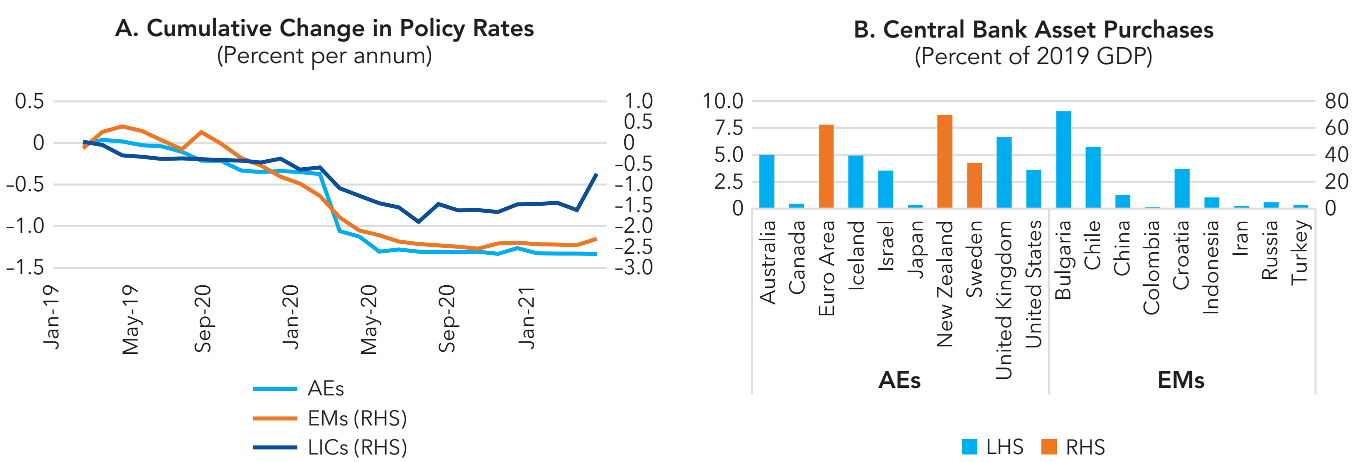
Source: Batini and Li (2023), using data from the IMF Fiscal Policies Database.
Note: Estimates are as of September 27, 2021. The fiscal measures include resources allocated or planned in response to the COVID-19 pandemic since January 2020, covering implementation in 2020–21 and beyond.

IMF's advice to spend liberally. The IMF thus forecast a sharp deterioration in fiscal balances in 2020, with greater deterioration expected where output declines were projected to be greater. As with the growth forecasts, the IMF's fiscal balance forecasts made in April 2020 were quite accurate on average, while the June 2020 forecasts reflected a pessimism that had to be dialed back over the course of the year.

Advice on monetary policies. Along with its strong recommendation for stimulative fiscal policies, the IMF also urged central banks, particularly in the AEs, to do their part to support aggregate demand in their countries, and globally, through easing of monetary policies. In internal memorandums to IMF management, and publicly in successive editions of the GFSR, Fund staff supported the steps taken by the major AE central banks to cut interest rates, implement UMPs, and extend cross-border liquidity lines to other major central banks as they had done during the GFC (Figure 5, Panel A).

Monetary policy advice to EMs. For EMs, the Fund supported policy interest rate cuts but was publicly reticent about how it viewed the use of UMPs by several central banks in these countries. By end-April 2020, about 20 EM central banks had launched or announced some form of government bond purchase program (Figure 5, Panel B), but this development was not discussed in the April 2020 GFSR (IMF, 2020e) and the June 2020 GFSR (IMF, 2020i) update only made a factual reference without offering

FIGURE 5. MONETARY POLICY RESPONSE TO THE PANDEMIC



Source: Batini and Li (2023).
Note: Announced central bank asset purchases are expressed relative to nominal GDP in 2019.

much in the way of endorsement or caution. In September 2020, a Special Series note discussed the use of UMP by EM central banks, concluding that "the balance of benefits and risks needs to be considered carefully on a country-by-country basis." The October 2020 GFSR provided an in-depth analysis of the various asset purchase programs (APPs) implemented by EMDE central banks. While giving a positive assessment to APPs in reducing market stress, the staff analysis highlighted several risks of open-ended programs, including weakened institutional credibility, distorted market dynamics, increased capital outflow pressure, and fiscal dominance.

Advice on dealing with capital outflows. The IMF's advice on dealing with the large net outflows EMDEs experienced in March 2020 was in line with the Institutional View on Capital Flows that in the face of an imminent crisis, capital flow management measures (CFMs) could be part of a broad policy package, but these measures should not substitute for warranted macroeconomic adjustment, including through exchange rate adjustments (IMF, 2020i). In an April 2020 internal note, Monetary and Capital Markets Department (MCM) staff offered more specific guidance on how, if they were needed, outflow CFMs should be designed and implemented and how to assess their cost-benefit tradeoffs. In the event, aided by actions by advanced economy central banks, capital outflow pressures eased significantly by May—only a few EMDEs resorted to outflow CFMs—and exchange rate movements were quite limited in contrast to the GFC period.

NPIs. The Fund's early analysis suggested that NPIs—though considered necessary by governments to contain the spread of the pandemic—were costly in terms of their impact on economic activity (Deb and others, 2020). Further work was carried out in an analytic chapter in the October 2020 WEO and elsewhere, which also confirmed the high economic costs of lockdowns and other NPIs but argued that "the recession was also largely driven by people voluntarily refraining from social interactions as they feared contracting the virus. Therefore, lifting lockdowns is unlikely to lead to a decisive and sustained economic boost if infections are still elevated, as voluntary social distancing will likely persist."[7] Overall, drawing on this evidence, the IMF supported the use of both mitigation and suppression measures to contain the health impact of the virus until a vaccine became broadly available.

Vaccines. With the approval of COVID-19 vaccines in AEs in early 2021, the Fund emphasized the need to ramp up vaccine production and urged global cooperation "to secure upfront financing and upfront vaccine donations" to avoid a multi-speed recovery in which many emerging markets and low-income countries fell behind (Agarwal and Gopinath, 2021). In her Global Policy Agenda for the 2021 Spring Meeting, the MD emphasized that "vaccine policy is economic policy," noting that the returns to vaccination far exceeded the costs.

D. ASSESSMENT

Strategy

Credit for bold strategic decisions. The Fund deserves great credit for recognizing early the potential scale and likely speed of the economic fallout from the pandemic and formulating an effective approach for providing rapid financial support to the broad range of countries affected by an unprecedented global shock. It quickly consulted with and brought on board the views of epidemiologists and other health experts and re-calibrated its emergency financing instruments to respond quickly to the needs of its member countries. As evidence of the continuing effects of the pandemic became clearer, the Fund considered the need for further reforms of its financing instruments (including a new pandemic facility)—some eventually supported by the Board, others not. Staff also deserve credit for making the case for an SDR allocation in 2020 and working on proposals for reallocation of existing SDRs. Though not successful that year, these efforts laid the basis for proposals that were successfully advanced the following year.

Recognizing some shortcomings and tradeoffs. With the benefit of hindsight, the expedited process for formulating and putting in place the pandemic response strategy inevitably involved some shortcomings and tradeoffs. Specifically: (i) staff's outreach to the full Board in the early days of the pandemic could have been more extensive;

[7] See "The Great Lockdown: Dissecting the Economic Effects," Chapter 2 in the October 2020 WEO, and the associated blog by Grigoli and Sandri (2020). Regional Economic Outlook (REO) reports by the Asia and Pacific Department (APD) and European Department (EUR) also tried to estimate the effect of NPIs on public health and economic activity.

(ii) the balance of risks from the chosen strategy could have been analyzed in greater depth and received more emphasis at the outset; and (iii) more could have been done to forge a strategic understanding with the World Bank on the approach to the provision of financing. Moreover, some of the initiatives had little practical impact—such as the introduction of the SLL, as demand for this instrument was likely dampened considerably by quick actions from major central banks to offer liquidity support through swap lines.

Consultations with the Executive Board. Our interviews with EDs and their advisors who were in office during 2020 indicate that most of them—and even some among the largest shareholders—felt less than adequately informed of the Fund's evolving views on the outlook and the Fund's strategic thinking in the initial months of the pandemic. Senior Fund officials indicated the need for the Fund to move boldly in extraordinary circumstances even if this did not allow for the usual extensive consultations. Nevertheless, an opportunity for formal consultation of the Board during February on the range of options for Fund assistance to countries would have been helpful in ascertaining the views of the full membership. While this may not have materially changed the actions the Fund ended up taking, an early discussion of the risks involved in the Fund's recourse to extensive use of EF and an early polling of the Board's appetite for innovations such as a new pandemic facility would have been desirable from a governance perspective.

Discussion of financial and enterprise risks. Reflecting the very rapid pace of decision-making in the early days of the pandemic, the discussion of financial and enterprise risks in the Board documents proposing key changes in policy, such as the doubling of the EF ceilings, was quite limited. Attention was largely focused on concerns related to the adequacy of the PRGT's lending and subsidy resources, which fed into major fund-raising efforts starting at the 2020 Spring meetings. While there was some recognition of operational and credit risks, these were judged to be outweighed by considerations of the strategic and reputational risks if the Fund did not move very quickly to help countries. There was increasing analysis and concerns related to such risks over time, as the ORM's mid-year risk update in June 2020 and ORM's full risk report and FIN's paper on the adequacy of precautionary balances in November 2020 appropriately raised concerns about escalating financial risks related to the surge in lending related to the pandemic and concerns about the possible misuse of the Fund's resources. However, some key sources of risk and related implications for credit exposure and capacity to repay, arising in particular for the PRGT—such as the rising share of borrowing through emergency facilities rather than UCT programs and the rising share of credits to countries with a high risk of debt distress—were still not examined in depth.

Partnership with the Bank on COVID issues. The Fund and Bank worked well together in pressing for official debt relief and multilateral vaccination support initiatives. However, interviewees from both Fund and Bank noted that strategic differences in the approaches for providing financial support across the two institutions affected the coherence of cooperation at the country level in some cases. The Fund generally emphasized disbursing rapidly through its emergency facilities to meet urgent needs while the Bank's continued reliance on lending largely through its policy-related instruments allowed for more concern for particular country policies but sometimes resulted in considerably slower disbursements (Ocampo and others, 2023). In other cases, the Bank provided financing when the Fund did not, reflecting greater flexibility in providing humanitarian aid. These issues are discussed further in Section IV.B.

SDR allocation. Turning now to initiatives that failed to come to quick fruition, our interviews indicate appreciation for management and staff's attempts to try to move the political constraints blocking an SDR allocation in 2020, and recognition that this was eventually a matter out of their control. Some observers felt that the Fund could have done more to analyze and publicize the costs to LICs in terms of lives and livelihoods from the failure to agree to an allocation, but they agree that this is unlikely to have changed the outcome. The pivot to agreeing on a large SDR allocation in the summer of 2021 presumably benefited from the earlier work on this topic—although this decision lies outside our evaluation period.

Pandemic facility. In July 2020, Fisher and Mazarei (2020) suggested that the IMF launch a new pandemic facility, particularly to help EMEs deal with the lingering effects of the COVID-19 pandemic (including possible debt restructurings). They argued that the pandemic-induced fiscal and BOP needs are different from those addressed by standard Fund programs since “at this point [programs] should place less emphasis on adjustment than would be the case with the Fund’s more traditional lending instruments.” Building on their internal deliberations, staff did put forward a proposal along these lines in September 2020. In hindsight, staff could have been more open to the idea of a new facility and window in their design of the initial strategy in February 2020 and early consultation of the Board on this option might have yielded a different outcome. That said, it is certainly the case that reaching quick agreement on a new facility or window would have been highly challenging.

Precautionary facilities. The use of the Fund’s precautionary facilities did expand during the pandemic but the number of countries involved was still very small and largely confined to Latin America. The new FCL arrangements for Chile and Peru doubled the number of such arrangements during 2020, Colombia drew on parts of its FCL, and Morocco drew the full amount under its PLL. But there was no take-up of the SLL (until Chile in May 2022); in the end, staff’s skepticism in internal discussions about take-up proved more accurate than the hope expressed at the time of Board approval of the SLL that commitments could amount to nearly $60 billion. Interviews with the Board and outside experts suggest that while considerations of stigma still held back some countries from approaching the Fund, other factors were also at play in dampening the demand for the Fund’s precautionary facilities. The main factor was the prompt actions by the Fed, ECB, and other central banks in easing monetary conditions and providing swap lines to ease liquidity concerns in EMEs. These actions allowed for a quick reversal in EM capital flows by mid-2020, without which countries might have faced significant financing gaps. Further support for this line of reasoning comes from the fact that countries’ recourse to regional financing arrangements (where stigma is presumably less of a concern) was also limited and that a short-term credit line set up by the European Stability Mechanism saw no take-up. Nonetheless, a number of observers have mentioned that certain features of the SLL, in particular the restriction of access to 145 percent of quota while still requiring an FCL-standard policy framework, likely made it unattractive to countries, and hence it is not at all clear that demand would have materialized even absent actions by the major central banks to stabilize international financial conditions.

Longer-term consequences of short-term focus. The Fund’s focus on addressing the short-term financing needs of members necessarily introduced longer-term risks that are illustrated by the relatively slow transition from EF to UCT, concerns about the build-up of debt, and the depletion of the IMF’s concessional resources despite major fundraising efforts in the context of donor fatigue. Section III discusses some of these risks but it remains too early to do a full assessment of this trade-off.

Growth and Inflation Outlook

Overview. All considered, the Fund did well in adapting the process for formulating its global and country growth forecasts to meet the challenges of the pandemic.

- Increased top-down guidance. There was increased reliance on top-down guidance to take on board an institutional view of the likely economic damage from the pandemic. Interviews with several country desks and a large majority of staff survey respondents suggest that they welcomed this guidance as there was scant country-specific information, at a time when there were no reported cases of COVID-19 in many countries, that could be bought to bear on assessing the likely impacts. We do not find evidence that the top-down guidance implied systematic errors across different types of countries.
- Pessimism in growth forecasts. The IMF’s April 2020 forecasts for global growth, which reflected the top-down guidance, turned out to be close to the eventual outcomes. The further downward revisions in Fund forecasts in June 2020 turned out to be too pessimistic but they appear to represent the staff’s best attempt to reflect its information and views at the time rather than an attempt to make a deliberately dire assessment of the outlook. The Fund’s forecasts were broadly comparable to those of the private sector *Consensus Forecast* (which compiles individual forecasts for many larger countries largely from private sector institutions) and the World Bank, albeit noticeably

more pessimistic in June 2020. Admittedly, there were some large forecast errors for the "top ten" economies; the direction of the errors was similar to the Consensus. Forecast errors were indeed large for Brazil, which complained publicly about the pessimism in Fund forecasts, but the Consensus also was pessimistic about growth in Brazil. And the Fund made substantial forecast errors on growth not only for Brazil but for France, Germany, Russia, and the United States.

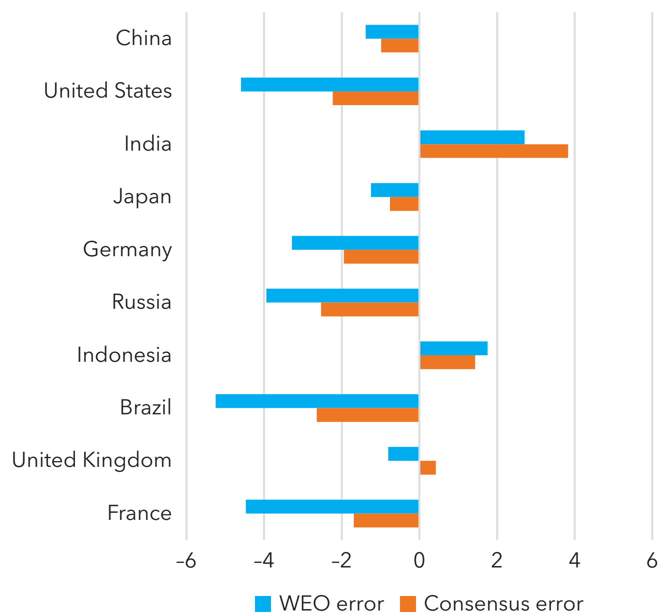
- Missing the 2021 surge in inflation. The IMF's judgment that weaknesses in demand would keep inflation low in 2020 despite supply bottlenecks turned out to be correct. But sticking to this judgment in the face of recovering demand and the growing impacts of supply disruptions led the Fund—along with major central banks—to miss the 2021 surge in inflation.

Pattern of forecast revisions. In past recessions, both IMF forecasts and Consensus Forecasts——have been slow in adjusting toward the eventual outcome after a shock. In contrast, during the 2020 recession, the IMF's forecasts were jagged, overshooting the outcome in June 2020 and then backtracking. It is actually the latter behavior that reflects an efficient forecasting process, whereas smooth revisions in forecasts would imply that forecasters are not incorporating all the news into their forecasts in a timely manner (IEO, 2014a).

Comparison with outcomes and other sources. Prior to the onset of the pandemic, the IMF and the Consensus had virtually identical expectations for global growth in 2020. In April 2020, both sources revised down their forecasts sharply, with the IMF noticeably more pessimistic. In June 2020 as well, the IMF was more pessimistic than the Consensus, but both sources overshot the eventual outcome and then backtracked. This pattern largely reflects the forecasts for AEs. For EMs, differences between the Fund, World Bank and the Consensus were small, though the Fund was more pessimistic than the Consensus and the Bank; for LICs, the Fund was more pessimistic than the Bank in June 2020.

Comparison of the 10 largest economies. The behavior of the global growth and AE and EM aggregates is driven in large part by forecasts for the 10 economies with the biggest weights in the aggregates. In all cases but one (India), the magnitude of the forecast error was greater for the WEO than for the Consensus (Figure 6). And it is striking that in all but one case (UK) the direction of the error was similar in the two sources. This similarity suggests that both IMF and private sector forecasters were reflecting the information available at the time about the pandemic's spread and likely impact, the spillovers from the collapse of trade and disruption of global supply chains, and conjectures about the impact of interventions such as lockdowns on economic activity. The IMF's increased recourse to top-down guidance may have affected somewhat the magnitude of the error but is unlikely to have been the dominant factor leading to what turned out to be pessimistic forecasts. Further evidence that top-down guidance is unlikely to have led to a systematic bias toward pessimism comes from looking at the distribution of forecast errors for all countries. This distribution (based on the June 2020 forecasts) is fairly symmetric—there are numerous countries for which the IMF forecast turned out to be too optimistic. Unlike in the past, when the Fund's forecasts have been subject to a growth optimism bias for countries with Fund-supported programs, there was also no evidence that forecast errors were larger for countries that received Fund financing.

FIGURE 6. FORECAST ERRORS FOR REAL GDP GROWTH IN 2020: 10 LARGEST ECONOMIES



Source: Loungani and others (2023).

Missing the inflation upsurge. In formulating its inflation forecasts, staff considered the relative strengths of the impacts of demand collapses and supply bottlenecks. Their judgment led to fairly accurate forecasts on average for all country groups for 2020 inflation. However, the Fund's Spring 2021 inflation forecasts turned out to miss the upsurge in inflation that got underway in 2021, as staff, in line with major central banks and the private sector Consensus, underestimated the strength of the recovery of demand relative to persistent strains in supply, even though some prominent commentators had begun to ring alarm bells by February 2021 (for example, Blanchard, 2021; Summers, 2021). Though the forecast miss can be explained as a judgment call that ended up off the mark, with hindsight it seems to represent another instance of Fund deference to conventional wisdom among major central banks (see IEO (2011 for concerns about groupthink at the Fund ahead of the Global Financial Crisis (GFC))).

Highlighting scenario analysis. The attention to scenario analysis in the WEO has grown over time, partly in response to the recommendations of a 2014 IEO evaluation of IMF forecasting (IEO, 2014a). The consistent discussion of scenarios in the WEO during the pandemic is welcome, and the scenarios were chosen to match well the uncertainties present at the conjuncture. The inclusion of this analysis in briefings prepared for the G20 usefully reminded policymakers of possible outcomes and the need to be ready to recalibrate policies if the baseline scenario did not unfold. More could have been done to also highlight this analysis in the Executive Summary of the WEO and in the Chief Economist's opening remarks at the press conference launching the WEO, since these are the primary sources through which the WEO's messages are disseminated to broader audiences. If scenario analysis and risks for forecasts were more prominent, it would have encouraged questions and media coverage would also turn in that direction.[8] The IMF's scenario analysis would also benefit from better ways of visualizing potential outcomes to communicate the results more transparently.

Policy Advice

Well-founded advice at a time of maximum stress. Fund staff deserve great credit for continuing to produce high-quality multilateral surveillance reports that provided member countries and the international community with comprehensive and coherent narratives on economic and financial developments. The Fund appropriately decided that strong fiscal support from governments was the key policy response needed to save lives and maintain livelihoods. The advice was arrived at after adequate internal discussions and once agreed on was communicated clearly to country authorities and the broader policy community. The Fund's COVID policy tracker and "How-To" notes were much appreciated by country teams and authorities, particularly at a time of high uncertainty and limited opportunities for in-person meetings, although in interviews with the IEO some suggested that the content of some notes could have been more granular to increase value added. Staff attributes the tracker's success to verification of the data by Fund experts (including classification of measures above or below the line) and frequent updating—the tracker was updated on a quarterly basis until October 2021.

Assessing the process for formulating fiscal policy advice. Judging the eventual costs and benefits of the IMF's fiscal policy advice will require balancing short-term and longer-term consequences, which is beyond the scope of this evaluation. However, some early reflections can be offered on the Fund's processes for formulating and offering advice and the extent to which the Fund attempted to correct past deficiencies in its advice.

- "Do what it takes …": The Fund deserves praise for quickly formulating its policy advice in the April 2020 FM after sufficient internal discussion of the costs and benefits of alternative policies. Departmental comments on the draft FM show that staff were well aware of the medium-term risks for public debt sustainability of advocating a policy of "do what it takes" but felt that the humanitarian and economic needs of the moment

[8] In opening remarks launching the July 2022 WEO update, the Economic Counsellor stressed the importance of paying attention to an alternate scenario, prompting questions from the media on the likelihood of that scenario unfolding and how policies would need to be adapted in that event.

were paramount. While the headline message was to do "whatever it takes," the Fund also emphasized that spending should be targeted and temporary to avoid a build-up of fiscal risks.

- "… but keep the receipts": The Fund correctly urged countries to monitor carefully where the spending was ending up. While this was always part of the Fund's corporate message on fiscal policy, its implementation at the country level in IMF programs got off to a slow start. As discussed further in Section III, the guidance became more granular and was strengthened over time as some on the IMF's Executive Board and some CSOs raised concerns about the potential misuse of government funds. In hindsight, a quicker incorporation of the corporate message into country level financing discussions would have been desirable.

External views on IMF fiscal policy advice. In our interviews with country officials, there was general praise that the IMF had rapidly adapted its advice to the needs of the pandemic. Some country authorities, however, found the IMF's advice to "do what it takes but keep the receipts" as not sufficiently nuanced to their fiscal situations, particularly as they felt that the first part of the message ended up receiving greater attention in political circles than the second. The IMF's advice may thus have sometimes encouraged fiscal support that went beyond what could be readily absorbed in countries with inadequate frameworks for fiscal discipline and governance safeguards over public spending. CSOs were supportive of the Fund's general exhortation to spend, but they too felt that inadequate attention was being paid to the processes for "keeping the receipts." CSOs also argued that the IMF's advice to spend was not adequately reflected in the IMF's country level advice.

Premature withdrawal: The Fund's caution against premature withdrawal of fiscal support, which was a theme of the October 2020 FM and April 2021 FM update, was a recognition of the scale and unique nature of the pandemic shock. But it also appears to have been partly motivated by a desire to avoid the post-GFC experience, when many countries turned toward fiscal consolidation in 2010 based on a G20 commitment for consolidation built on forecasts of recovery that proved too optimistic. The IEO's 2014 evaluation of the IMF's response to the GFC (IEO, 2014b) was critical of the Fund's support for this premature turnaround in fiscal stance. Public interviews given by the MD and FAD Director suggest that avoiding a repeat of the post-GFC experience was on the minds of management and senior staff. As with the formulation of the initial fiscal policy advice, there was active departmental review of this position and some divergence in views on how strongly it should be pushed.

Assessment of formulation of monetary policy advice for emerging markets: Fund staff moved quickly to lend support to the actions of major advanced economy central banks to ease policies through interest rate cuts and UMPs. In contrast, interactions with EM central banks which were contemplating or launching asset purchase programs were far more limited. MCM senior staff noted that while there were active discussions within the department on the issue, there was a lack of consensus. Some staff were sympathetic to the notion that EM central banks had to support their economies through unconventional means given the gravity of the situation while others were concerned about the risks to inflation and financial stability from such policies in environments where inflation expectations were less well-anchored and central bank independence not fully secured. Some EM country teams where such policies were being announced did approach and receive tailored guidance from MCM staff on the risks and benefits of asset purchase programs, and these policies were also discussed during meetings of the Monetary Policy Advisory Group, an internal group set up in response to recommendations of the IEO's 2019 evaluation of *IMF Advice on Unconventional Monetary Policies* (IEO, 2019). However, these discussions remained largely out of the public eye, and interviews with some market participants and monetary policy experts suggest that the Fund could have weighed in more quickly and openly on an important new policy development. They felt that, as in the case of the use of negative interest rates during the GFC, the IMF's first public judgments on the use of unconventional monetary policies by EMs came too long after countries had already taken these steps. Moreover, where advice was given, it largely emphasized the long-run risks associated with UMP measures—which observers felt were self-evident to the central banks taking these actions.

Assessment of formulation of advice on dealing with capital flows: The IMF was careful to provide advice on dealing with capital flows that was aligned with the Institutional View (IV). At the same time, it was prepared to provide granular advice on capital outflow measures which extended the quite limited guidance provided in the IV (IEO, 2020). While appropriately refraining from public discussion of the need for outflow controls when EMDEs were facing massive outflows in March and April 2020, internally Fund staff offered both general guidance and country-specific advice on the use of outflow CFMs should they turn out to be needed. In an April 2020 presentation, MCM staff answered questions from area department staff—many from countries facing outflows—on how effective CFMs would likely prove in their particular country circumstances. MCM staff also report having confidential discussions with a few country authorities on the efficacy of outflow CFMs in their particular circumstances.