IMUN General Assembly

Officer Report 2021

Measures to Attenuate the Effects of the Covid-19 Pandemic on Global and National Economies

The International Monetary Fund (IMF) calculated a 4.4% shrink in the economy in 2020 – the worst since the Great Depression. (BBC) As the world emerges from a health crisis, the threat of an economic crisis looms over the international community. In order to ensure that this does not come to pass, it is crucial to prompt global and national economic growth and to protect vulnerable demographics in order to mitigate the economic impact of the pandemic. The aim of this issue is to debate how nations ca ensure a swift recovery from this economic crisis, while protecting people and economies from the damage. In essence, the goal is to anticipate the impact, and deal with it, before the damage sets in. For this, delegates will need to be familiarized with the current and future impacts of this crisis, while creatively devising solutions to dampen the economic impact.

Firstly, to avoid confusion, it is important to clarify what is meant by global and national economies. The "[foundations of all national economies are] small and medium industries." (Al Dhahab 2016) Hence, what is meant by mitigating the impact on national economies is providing the adequate support to small and medium business owners, workers, and people at an economic disadvantage due to the pandemic in order to ensure the health of national economies. The global economy is the collection of national economies, therefore, to stifle the impact of the pandemic and to ensure the sustainable economic growth of all Member States, solutions need to be crafted. It is important to consider both aspects of this issue seeing as they are intertwined – both need to be addressed for the debate to be successful.

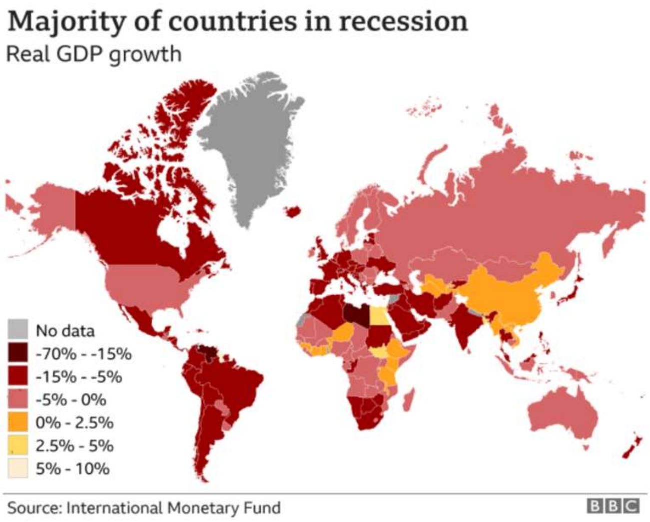

Figure 1 - World map with the "real GDP growth of each country" (IMF via BBC)

The SarsCov2 pandemic had widescale economic impact on an international and national level. BBC reports that the pandemic has disrupted all stock markets, affecting peoples' pensions and individual savings accounts; increased unemployment and made job procurement a lot harder; sent countries into recession (as seen by figure 1); crippled travelling and hospitality sectors; while changing the paradigm of shopping completely. Moreover, the pandemic has made achieving all the Sustainable Development Goals (SDGs) a lot harder. The ones with the strongest connection to this issue are the 1st (No Poverty) and the 8th (Decent Work and Economic Growth). "Oxfam estimates that the crisis could push half a billion people back into poverty" and the IMF reports that 17% of young persons lost their jobs in the pandemic and the rest had their hours cut. (UNDP – SDGs)

The economic impact of the spread of SARS-COV2 was different in different countries. While More Economically Developed Countries (MEDCs) had and have greater economic stability to buffer the impact, they were often victim of a high case density (i.e. USA, UK, and Italy. On the contrary, many Less Economically Developed Countries (LEDCs) had less cases, but because of a lack of health and economic infrastructure, the damage to both was magnified exponentially. In addition, the impacts and recovery of different countries' Gross Domestic Products (GDPs) varied immensely. For example, while economies such as China and India are expected to drive global GDP growth in the coming year, large nations that suffered the most case density such as the UK and Italy are expected to have a low recovery (IMF via BBC). Furthermore, low-income countries and African countries will be, respectively, 6 percent and 1-4 percent lower than the pre-COVID era (IMF (2020) and Djiofack et al. (2020) via Yeyati and Filippini "Social and Economic Impact of COVID-19") As demonstrated, the COVID-19 pandemic impacted different countries' economies in very different ways.

As such, the goal for this debate will be to tailor a response by the international community which is flexible enough to accommodate the needs of every single Member State. As a result, delegates are encouraged to look into factors that determine the extent to which a country can mitigate the impact of a crisis such as: credit ratings, fiscal space ("access to international financial markets" – Brookings), labor market structure, the quantifiable economic and structural damage suffered; etc. (Alberola et. al 2021, Benmelech et. Tzur-llan 2020, Brookings) Knowledge of these factors is vital to ensuring the fair distribution of resources to ensure an equitable recovery from this economic crisis. It is also key that delegates have a firm grasp on their delegation's policy and economic situation so that a resolution can be produced that helps all countries.

To achieve this, delegates should familiarize themselves with monetary and fiscal policies. Monetary policies ("management of money supply and interest rates") and fiscal policies ("using taxes, government borrowing, and spending") both have the same purpose: regulating the economy. They are the main tools in the arsenal of all Member States to alleviate the economic impact of the pandemic. (Investopedia) These policies vary between short-term (mitigating and recovering from a crisis and stimulating a stagnant economy) and long term (prompting sustainable growth and reducing poverty) goals. (IMF, Fiscal Policy) Delegates should make short term solutions their priority without losing sight of the long-term consequences and benefits of these solutions. Additionally, sustainable growth should always be considered. Both monetary and fiscal policies can be broadly subdivided into expansionary and contractionary policies. To facilitate their understanding, delegates are encouraged to familiarize themselves with these terms. Expansionary policies are the most adequate for the current issue seeing as they are mostly used when a nation "is facing high unemployment rates (…) during a recession" such as the ones used during the 2008 financial crisis. (Investopedia) Notwithstanding their incredible benefit, these policies need to be used sensibly seeing as overused expansionary policies may lead to high inflation.

Monetary and fiscal policies are umbrella terms for all the individual policies and tools used to manage the economy. Delegates are encouraged to familiarize themselves with the individual policies used. For example, fiscal automatic stabilizers ("offset fluctuations in a nation's economic activity through their normal operation without additional, timely authorization by the government or policymakers" – Investopedia) are a common fiscal tool used to attenuate the impact of an economic crisis. The most common example of them are "progressively graduated" income taxes but there are other forms worth exploring. (Investopedia) It has been shown recently that nations with structured automatic stabilizers saw the impact on households' disposable income and companies' liquid profits dampened and needed a smaller stabilizing fiscal response. (Alberola et al. 2021) Automatic stabilizers should work in tandem with fiscal stimulus during a crisis, increasing liquid profit, as wages and sales fall. (IMF – fiscal policy).

There is no doubt that both monetary and fiscal policies will be necessary to mitigate the economic impacts of this crisis, however, they may be suitable for different things For example, Fornaro et Wolf 2020 places a special burden on "that aggressive fiscal policy interventions to support investment will be needed to push the global economy out of stagnation" while monetary policies can help increase global demand. Delegates should recall this when devising solutions with the appropriate combinations of monetary and fiscal policies in order to fix the different aspects of this agenda issue.

While considering the lessening of the economic impact this crisis, a large part of the debate will be the special consideration of nations and demographics most ill-equipped to recover and those most vulnerable to the economic impact of the pandemic. For example, women and girls are one of the most affected demographics. The pandemic is threatening the hard-earned progress towards gender equality as this crisis "[disproportionately impacts] women's incomes, employment, and education opportunities, while increasing pressures of unpaid care and fueling the "shadow pandemic" of gender-based violence." (Tang, Vincent et. al. Gender Equality and COVID-19).

Additionally, the informal economy (workers without formal work contracts) was affected even more than the regular job market. 1.6 billion people, accounting for more than 20% of the global population, are members of the "informal economy" (UNDP – SDGs). The informal economy is beyond the oversight of governments and is less steady than the regular job market, therefore, its workers have their livelihoods completely threatened by the pandemic. Not only was the pandemic harder on informal workers due to lower-wages and small savings, it will also make recovery more difficult for nations with systemic informality, impeding "green", "inclusive", and "resilient" development". (Ohnsorge et. Yu, World Bank)

Although job informality is common to all nations, it is pervasive in Less Economically Developed Countries (LEDCs). A big informal economy had been associated with greater development challenges and difficulty in achieving the Sustainable Development Goals (SDGs). (Ohnsorge et. Yu, World Bank) "Countries with high informality struggle to muster the fiscal resources to support economic activity; to implement effective monetary policy in a shallow financial system; and to generate informal sector income growth or formal-sector employment in a recovery." (Ohnsorge et. Yu, World Bank) LEDC governments with higher than average informality also have a GDP 5-12 percentage points lower than MEDCs, which lowers the capability of these countries to issue fiscal support packages to recover from the pandemic. (Ohnsorge et. Yu, World Bank) In addition, Benmelech et Tzur-llan 2020 found that MEDCs issued larger fiscal and monetary policies than LEDCs and that the factor that had the greatest impact on a country was its credit score. "These findings raise the concern that [LEDCs with low credit ratings] will not be able to deploy fiscal policy tools effectively during economic crises." (Benmelech et. Tzur-llan, 2020)

Delegates are encouraged to be aware of these and research other communities at a disadvantage for economic recovery in order to formulate solutions that foster inclusive recovery and growth. For this, delegates may consider special aid for these populations such as lowered interest rates, special tax brackets, and monetary aid to compensate for this disadvantage.

Delegates may also consider incorporating the help of certain Non-Governmental Organizations (NGOs) and some governmental organizations which have programs related to economic recovery. One example of this is the IMF's Rapid Financing Instrument which "provides rapid financial assistance, which is available to all member countries facing an urgent balance of payments need." These resources may be invaluable in terms of funding.

Funding will be a large part of the debate; however, delegates should keep in mind that specific amounts of money cannot be discussed. What can and should be discussed are sources of funding, where it will be directed, and under which conditions it can be allocated and used. Moreover, there is a great tendency for corruption when dealing with large amounts of money, especially in recovery efforts such as these. Therefore, delegates should take great care in ensuring that there is absolute transparency and anti-corruption mechanisms in place to prevent this.

It is crucial to note that no nation is the same. Member States have different policies, different GDP, different interest, informality, unemployment rates, etc. Thus, even if they are grouped in MEDCs and LEDCs, there is no blanket solution which will fix all Member States' problems. This is why, delegates need to have a firm grasp on their delegation's policy and economic situation so that a resolution can be produced that helps all countries. Furthermore, a key part of drafting clauses for this issue is to give avenues for consideration and allow for the fair, but not necessarily equal distribution of resources and aid.

One particularly helpful source of information is the International Monetary Fund website which posts recommendations for measures and policies that nations can take to allay the effects of the pandemic on the economy. These suggestions can be repurposed and reimagined for wider scale solutions. Besides the IMF, there are several NGOs which provide helpful information such as: The World Bank, Amnesty International, and Transparency International. Moreover, not only is the UN Development Program (UNDP) a useful source of information, it has a webpage dedicated to its response to the socio-economic impacts of Covid-19 where they list reports on the individual socio-economic impact of the pandemic on several Member States. Therefore, this may be a useful source when researching a delegation's position on the issue. Another excellent source of information on each delegation's policy is their official government and finance ministry/treasury website. Lastly, organizations such as the European and African Union create their own policy, which may be helpful as a foundation for further solutions.

Seeing as the economic impact of the pandemic are wide reaching, every delegation has a very strong position on this issue. However, some of the most relevant delegations/organizations are the IMF, World Bank, and the UNDP. The countries who were most affected by the pandemic such as Brazil, India, USA, Russia, Italy, etc. also were highly affected by this crisis and will therefore need the most help. Lastly, LEDCs, because of their lack of economic infrastructure and propensity for devastating economic impacts, will also play a major role in this debate.

During the debate, delegates should invent and discuss solutions which mitigate the economic impact of the pandemic by ensuring economic recovery. Delegates are encouraged to consider both the national and global aspect of recovery and take into consideration vulnerable nations and demographics. The participation of all delegates is encouraged seeing as this is an issue that impacts all nations and all NGOs.

Works Cited

Alberola, Enrique, et al. *Fiscal response to the COVID-19 crisis in advanced and emerging market economies*. 17 Aug. 2021. *Online Library*, https://doi.org/10.1111/1468-0106.12370. Accessed 26 Aug. 2021.

Al Dhahab, Ahmed Alawi. *Entrepreneurship in the Gulf Cooperation Council*. 2016. *Science Direct*, www.sciencedirect.com/topics/social-sciences/national-economy.

Benmelech, Efraim, and Nitzan Tzur-llan. *The Determinants of Fiscal and Monetary Policies During the Covid-19 Crisis*. July 2020. *NBER*, https://doi.org/10.3386/w27461.

"Coronavirus: How the pandemic has changed the world economy." *BBC*, www.bbc.com/news/business-51706225. Accessed 26 Aug. 2021.

"COVID-19 and the SDGs." *UNDP*, feature.undp.org/covid-19-and-the-sdgs/. Accessed 26 Aug. 2021.

Cúrdia, Vasco. *Mitigating COVID-19 Effects with Conventional Monetary Policy*. 2020. *Research Gate*, www.researchgate.net/profile/Vasco-Curdia/publication/340610040_Mitigating_COVID-19_Effects_with_Conventional_Monetary_Policy/links/5e94c201a6fdcca7891539ee/Mitigating-COVID-19-Effects-with-Conventional-Monetary-Policy.pdf.

"Fiscal Policy: Taking and Giving Away." *IMF*, www.imf.org/external/pubs/ft/fandd/basics/fiscpol.htm. Accessed 26 Aug. 2021.

Fornaro, Luca, and Martin Wolf. *Covid-19 Coronavirus and Macroeconomic Policy*. 2020. *SSRN*, papers.ssrn.com/sol3/papers.cfm?abstract_id=3560337. Accessed 26 Aug. 2021.

"The IMF's Rapid Financing Instrument (RFI)." *IMF*, www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument. Accessed 26 Aug. 2021.

Investopedia. Accessed 26 Aug. 2021.

Makin, Anthony J., and Allan Layton. *The global fiscal response to COVID-19: Risks and repercussions*. *Research Gate*, www.researchgate.net/publication/347675258_The_global_fiscal_response_to_COVID-19_Risks_and_repercussions.

Ohnsorge, Franziska, and Shu Yu, editors. *The Long Shadow of Informality: Challenges and Policies*. *World Bank*, thedocs.worldbank.org/en/doc/37511318c092e6fd4ca3c60f0af0bea3-0350012021/related/Informal-economy-full-report.pdf. Accessed 25 Aug. 2021.

"Special Series on COVID-19." *IMF*, www.imf.org/en/Publications/SPROLLs/covid19-special-notes#fiscal. Accessed 26 Aug. 2021.

Tang (IMF), Vincent, et al. *Gender Equality and COVID-19: Policies and Institutions for Mitigating the Crisis*. 28 July 2021. *IMF*, www.imf.org/en/Publications/SPROLLs/covid19-special-notes#fiscal. Accessed 25 Aug. 2021.

Yeyati, Eduardo Levy, and Federico Filippini. "Social and economic impact of COVID-19." *Brookings*, www.brookings.edu/research/social-and-economic-impact-of-covid-19/. Accessed 25 Aug. 2021.