WORLD BANK GROUP
Equitable Growth, Finance & Institutions

WB Seminar
“Financial Sector Polices to Salvage Firms Hit by COVID-19”

Discussant remarks

Alfonso Garcia Mora
WBG Global Director, Finance
29 April, 2020

Supporting Firms Resilience

COVID-19 is damaging otherwise healthy firms and they require support to remain viable. The economic shock is being transmitted through four channels:

- Falling demand,
- Reduced and disrupted input supply,
- Tightening of credit conditions and liquidity crunch and
- Rising uncertainty.

Programs to support firms should be tailored to the type of firms and the administrative capacity of countries, subject to fiscal and financial sector stability.

- **Informal firms** are best targeted through social protection, microfinance and Fintech solutions

- **Micro and Small formal firms** that do not have access to the traditional financial sector could benefit from grants and cost reductions. Additional options for SMEs that have access to the financial sector and are integrated into the economy through value chains.

- **Large firms** also play an important role in generating high productivity employment, including in key sectors that typically are export oriented.

- **State-owned enterprises**, the government can serve as a guarantor of financial obligations of these enterprises.

Supporting Firms Resilience

The WBG is articulating the policy response around the following five pillars:

1. Ensure liquidity and support adjustment for viable firms.
2. Reduce operating costs and allow regulatory flexibility.
3. Enhance the use of financial digital payments.
4. Ensure the financial sector has the capacity to provide the needed liquidity and support without jeopardizing its resilience
5. Create the enabling framework needed to restructure debt, providing financial support to firms during the recovery phase

Some questions for discussion…

- **The objective**:
  - ➢ Should policies target all firms? (“Keep the lights on”)
  - ➢ Does it matter the typology of firms (market structure) when defining interventions?
  - ➢ Liquidity versus solvency?
- **The restrictions**:
  - ➢ How can EMDES design policies with much less fiscal, monetary and financial space than AEs?.... How economic losses should be distributed?
  - ➢ How to avoid potential negative feedback loop to the financial sector (esp. from regulatory forbearance decisions)
- And…. What about “credit risk the day after”?

What is happening around the World?

1. Firm-support policy responses so far

Firm-support measures adopted in recent weeks in response to COVID-19

Notes: A total of 845 measures in 120 countries have been catalogued as of 17 April 2020. Employment support measures do not include those, such as unemployment insurance, that are directly targeted to workers.

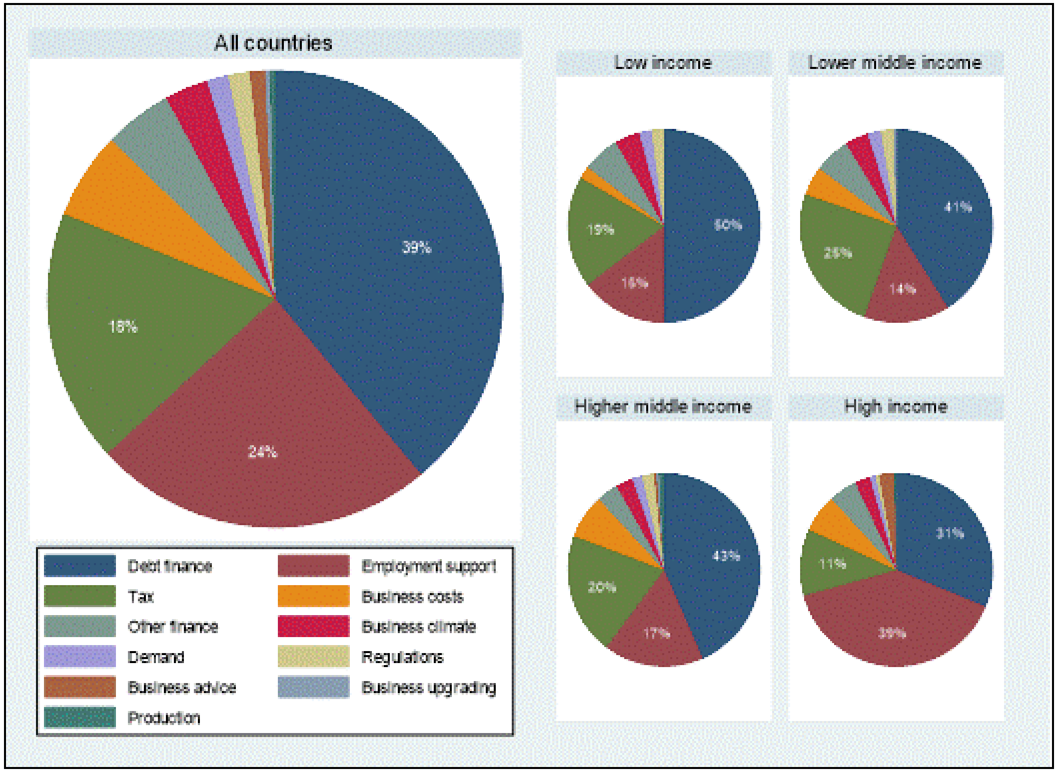
Source: World Bank Group, Map of SME-Support Measures in Response to COVID-19.

What is happening around the World?

1. Firm-support policy responses so far

Type of SME Support

(All countries and by country income level)



Notes: A total of 845 measures in 120 countries have been catalogued as of 17 April 2020. Employment support measures do not include those, such as unemployment insurance, that are directly targeted to workers.

Source: World Bank Group, Map of SME-Support Measures in Response to COVID-19.

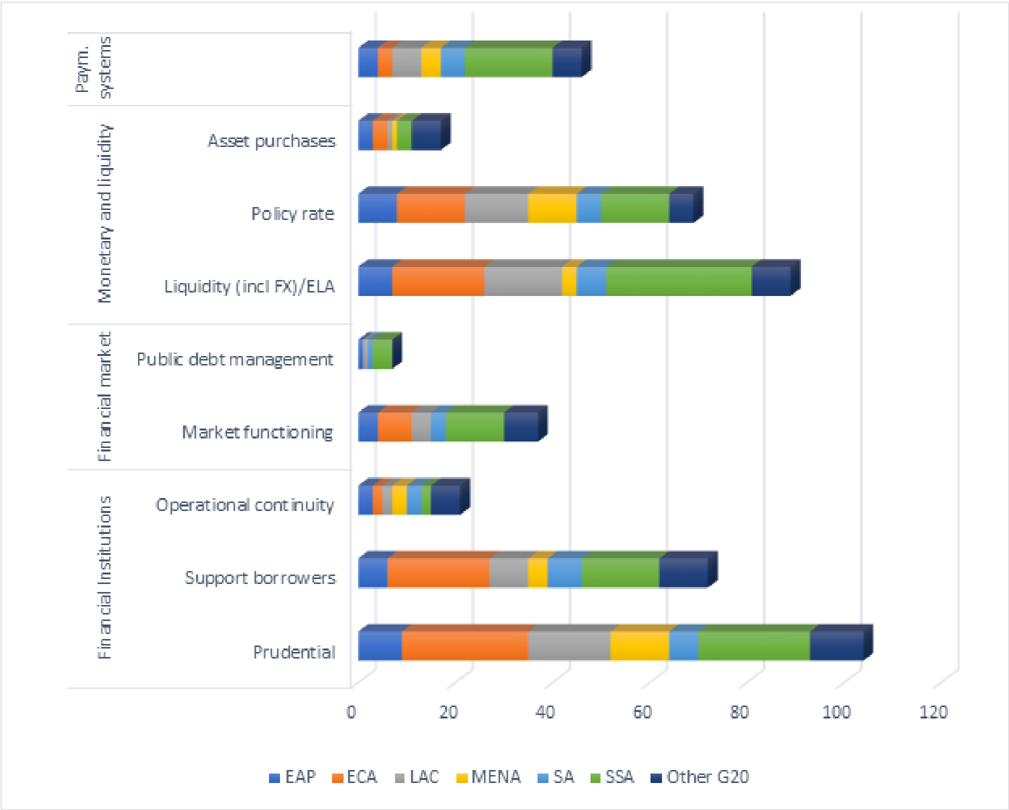
What is happening around the World?

2. Policy responses through Financial Sector

Fiscal space and monetary capacity have been critical in the response, and the main differences between AEs and EMDEs. Compendium of **380 measures taken so far by more than 100 countries in different regions**

COVID-19 policy response relevant to the financial sector, by region

Number of countries that have taken at least one policy measure by category



Source: World Bank

What is happening around the World?

2. Policy responses through Financial Sector

We classify the 375+ Prudential measures taken so far by regulators in three different buckets, depending on the extraordinary characteristics of these measures

	Number of measures	Number of countries
Bucket 1- Measures that make use of existing flexibility in the prudential framework and in full respect of global standards minimum requirements.		
Release/ defer capital buffers (conservation, counter-cyclical)	26	23
Ease other macroprudential measures (eg, DTI, LTV)	9	7
Ensure public risk disclosures by banks	3	3
Maintain close dialogue supervisor/industry (understand risks, unduly binding regulation and other constraints)	6	6
Set and communicate clear supervisory expectations (e.g. use of released buffers)	9	7
Prioritize critical supervisory actions	6	4
Structured process to consider regulatory and supervisory actions along the crisis	0	0
Reduce non-essential regulatory reporting requirements for banks	12	10
Other existing measures	21	18
Bucket 2- Measures that can be used at the discretion of the regulator/supervisor that go beyond the flexibility foreseen in the existing framework but which do not contradict the spirit/principles of global prudential standards.		
Release systemic capital buffers	4	4
Temporary ease on liquidity requirements (LCR, NSFR)	16	13
Support / facilitate restructuring of loans	40	32
Credit restructuring with public guarantee	4	4
Restrictions on use of profits and resources (e.g. dividends)	13	12
Suspension/limitation of banking fees	3	3
Lower risks weights for credit with public guarantees	5	4
Other special measures	14	11

WORLD BANK GROUP

Source: World Bank

What is happening around the World?

2. Policy responses through Financial Sector

More than 100 countries have adopted credit repayment moratoria, relaxation of days-past-due norms for NPE classification or for NPE provisioning rules

Bucket 3- Unprecedented regulatory forbearance measures that could contradicts the minimum prudential requirements agreed in the global standards.		
Suspension of contagion /pooling rules	0	0
Easing limits on Large Exposures	6	5
Credit repayment moratorium	65	47
Freezing of credit limits	1	1
Relax days-past-due norms for NPE classification	32	26
Relax NPE provisioning rules (incl. related to IFRS 9 measures)	25	19
Lower risks weights for specific sectors	9	8
Temporary freeze on credit classification status	10	10
Reduce minimum pillar 1 captial requirements	4	4
Broadening the definition of regulatory capital	8	6
Other extraordinary measures	24	15
	375	104

WORLD BANK GROUP

Source: World Bank