Macroeconomic Policy in the Time of COVID-19:

A Primer for Developing Countries

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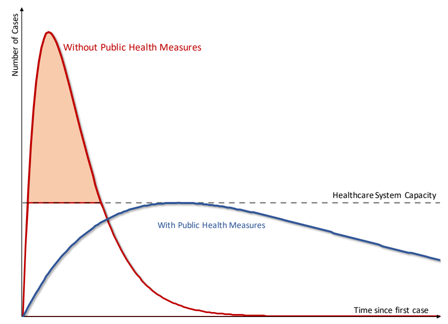
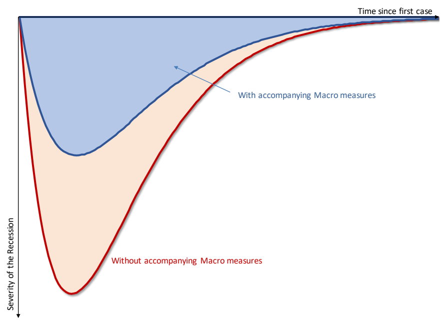
Marching Orders: Flattening the Pandemic and Recession Curves



(a) Flattening the Pandemic Curve



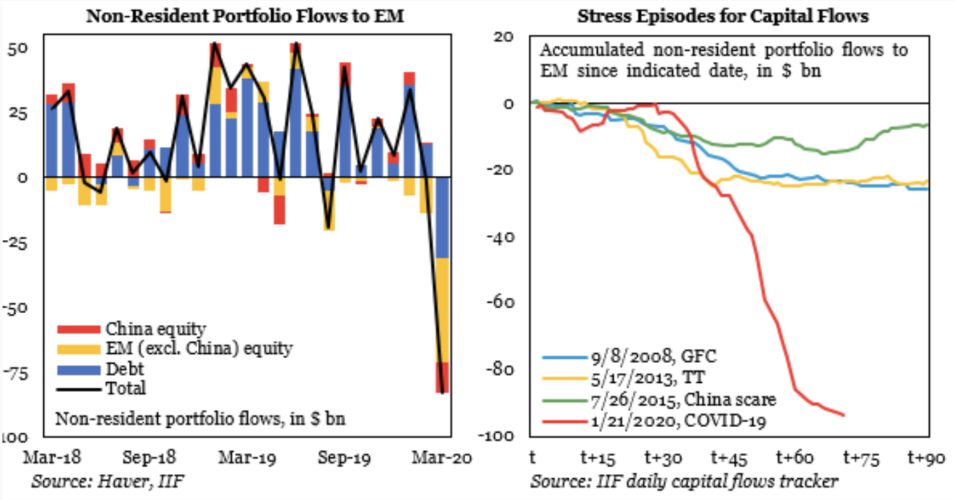
(b) Flattening the Recession Curves

1. Global Public good: strong positive externalities
2. Feedbacks from macro policies to health policies.

EMs and LICs: Four Observations

1. Financial Time $>$ Pandemic Time $>$ Macro Time.
2. *Macro*: limited fiscal and institutional capacity
3. *Pandemic*: Staggered (first wave). Negative feedback from macro.
4. *Financial*: Mother of all sudden stops.
   Repricing of risk, but also policies to flatten the curve in AEs.
   Wave of Sovereign Defaults looming on the horizon.

EMs Gross Capital Outflows



Source: IIF (2020)

What to Do?

Key observation: To be contained anywhere, the virus needs to be contained everywhere

1. Pandemic: Staggered, so re-deploy health capacity. International COVID brigade Coordinated by WHO.
2. Financial: Need for financial relief. Increase the size of Global Financial Safety Net ($>$\$2.5 trillion).
   - Fed Swap Lines + FIMA facility to provide dollar liquidity
   - Increase IMF firepower: Pandemic Loans
   - Immediate relief: Debt Moratorium for all EMs and LICs, private or official creditors. Mobilizes $>$ \$1 trillion. Gourinchas and Hsieh (2020)
3. Macro: If steps above are implemented, we can avoid very disruptive macro policies (monetization, financial repression...) likely to set these countries way back in the longer run.

Danger: that AEs may not have the bandwidth to do what is necessary.