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**The Need for Global Coordination and Cooperation: Transparency and Uncertainty Amid
the COVID -19 Outbreak**

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ABSTRACT

The COVID-19 pandemic has highlighted how intricately linked the global community has become with the advent of globalization, rapid growth of Information Technology and the Internet Revolution. Since many global economies have become interdependent on each other – as further reflected by sectors who have generated greater domino effects on one other, there have been suggestions and recommendations for shorter supply chains. Just how far can associated risk levels and particularly those with seismic and systemic effects on the economy be mitigated – whilst ensuring that appropriate balance is maintained in assessing and estimating accurate and reliable forecasts – particularly where past historical data , to an extent, will be required to achieve such an assessment?

The COVID pandemic has also highlighted that unexpected events such as recent developments will impact prior measures in such a way as never before – not only because of the unique attributes of this Crisis – both an economic and medical one, but also by virtue of the impact and interconnections globally. How reliable are prior measures and should this imply that less reliance will be placed on historical data and greater reliance on forward looking provisioning?

Technological advances , it would appear, should have facilitated the mitigation of information asymmetries however, the pandemic also reflects the growing need for digital measures to keep economies functioning and will certainly play fundamental and formidable roles in the future workplace. Stay at home measures have been greatly facilitated through digital advancements, virtual communication and conferences and it is without doubt that new regulations in respect of internet regulation and privacy laws may be reviewed and revised in several jurisdictions and regions.

Global coordination will certainly be required to overcome this pandemic. In addressing the aforementioned questions, this papers aims to highlight , amongst other objectives how and why such a coordination can be achieved.

Key words: coordination, temporary pandemic emergency purchase programme , forward looking standards, loan loss provisioning, enhanced targeted longer term refinancing operations, supply chains

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Introduction

Transparency and uncertainty are linked from several perspectives. Greater transparency fosters greater certainty whilst the converse remains true. Current prevailing levels of global uncertainty have unfortunately been compounded by fear which has been fueled as a result of lack of adequate information and control in addressing what is considered to be “invisible”. Trade relations between global major economies prior to the outbreak of the pandemic, have not exactly facilitated global coordination and an information sharing environment.

Are we currently facing another war?

In response to references made to “war” (“from Emmanuel Macron’s repeated reference to war and Queen Elizabeth’s invoking of the spirit of the Blitz”)... Christine Lagarde makes the following statement (BIS; 2020a):

“... What is certain is that an invisible enemy is severely testing our healthcare systems and our extraordinary healthcare workers.....our way of life has been altered, and for some time it has been turned completely upside down”.

One of the most important lessons which will be drawn from the Covid-19 outbreak is that all global communities impact the global financial community – no matter how hard efforts may be made to exclude certain communities. After all increased globalization and information technology have facilitated the growth of international trade – as well as the derived benefits therefrom. One of the ever apparent realizations of globalization being unequal wealth distributions – even amidst improved information technological benefits and the use of social platforms.

Until adequate and effective regulations are enacted to combat what is considered to be the “unintended” and detrimental effects of the use of social platforms and technologies, it is apparent that there will continue to be bigger winners and consequently greater losers from the use of such platforms. Even amidst the COVID-19 outbreak, wealthier citizens in certain jurisdictions are benefiting from greater tax breaks than would have been the case had the outbreak not occurred. Which beggars the question of how prolonged economic shutdowns will be borne by taxpayers amidst already dreaded impending austerity measures.

The Digital Age and Information Sharing Technologies

Amidst technological innovations and revolutions, why are we still faced with such unprecedented levels of lack of coordination, communication and inadequate information – in certain respects? Without doubt, the Internet Revolution since 1991, has paved way for greater possibilities to access

and share information – as well as facilitated speedier more timely communication, and should bridge gaps and divisions even between the richest and poorest sections of the community – even as information and digital gadgets like mobile phones, laptops and note books (ipads etc) have become more accessible and less expensive to all classes in the society.

Which also holds true from a global perspective. It is certainly the case that even in the poorest nations, mobile phones have become basic commodities – a huge progress since the early nineties – and even the mid/late nineties. However, with greater access to users, has also correspondingly grown the ability to trace and track user preferences, tastes, track personal information – as a way of targeting for marketing purposes. Which is legal and not criminal – as long as those users are not exploited in considerations which invade their privacy and other basic fundamental rights. As a result, it appears that users of information technologies have become ultimate tools rather greater beneficiaries of such tools and techniques.

Which is why the roles of competition regulators and antitrust bodies have assumed prominence over the years. Innovation surely has its immensely huge benefits – however where controls of vast amounts of data fall in the hands of few or cannot be adequately regulated or controlled by those to whom such powers have been given, there is every likelihood that there will be victims – in this case, users of such information.

The point being made is that innovation will achieve its ultimate and maximal benefits where regulation is appropriately administered. Never before has there been such disparities and discrepancies – in an age where social differences are supposed to be facilitated through digital techniques. Whilst the numerous benefits of technological advances cannot be denied, its facilitation of social classifications, designations through data mining, tracking, profiling and mapping techniques has also contributed to social divides within the society. To further exemplify, it is consciously – or unconsciously the case that many institutions or organizations will only hire, based on their ability to identify, trace associations and contacts from social networks – and their satisfaction that the right or appropriate classes of contacts and relations have been fulfilled. Which is not completely a bad idea where such contacts relate to professional competences and the ability to perform the job – rather than personal and private contacts. Have we become more globally united or divided, socially, or with respect to other classes, criteria and tastes, as a result of information technologies? Networks and networking are certainly beneficial but also divisive and based on classifications. It is frequently the case that many contacts on a social network may be referrals about whom little is known – if any at all. The fact that certain people belong to your network should not necessarily imply that you know them.

Should professional competence be judged from personal private contacts? Privacy of data and information and the need for adequate regulation of private data – generally and where not required or deemed essential to professional competences constitutes a huge task for many authorities. Where data is adequately regulated to ensure that abuse of such will not occur, then citizens would be more confident and an atmosphere of fear and uncertainty can be mitigated.

Against the backdrop of recent events, confidence in governments by its citizens, have been demonstrated in several jurisdictions whose governments have control – or appear to have such level of control that citizens are able to resume economic activities without the fear of a second wave of the pandemic. Adequate medical facilities – also playing a role - in addition to the use of digital techniques and technologies. Is it fair and credible to advance the argument that societies which have managed to reduce the disparities between the poor and the rich over the years, or in which lesser social divides exist have had less problems in dealing with the crises?

Recent figures do suggest that poorer societies and those on lower incomes are likely to be most vulnerable to the outbreak and in this respect, it appears to be an income question rather than an ethnicity question. Although it is also true that it constitutes an ethnicity question, since certain ethnic groups in many jurisdictions, are likely to be on lower incomes.

It is understandable that families with access to the best medical facilities, sanitation, private spaces to socialize during the ongoing social distancing measures – as well as those able to work from home – without having to encounter customers – as part of their required daily work commitments would be less exposed to the outbreak. In respect of essential workers, low tiered staff would be more vulnerable and whilst this does not exclude consultants and surgeons from those who are frontline workers and therefore susceptible, nurses and receptionists – as well as those involved in initial/ greater contacts with patients, are more likely to be vulnerable.

Recent efforts and measures aimed at mitigating the effects of the COVID-19 pandemic

In corroborating the ECB’s decision to adopt a three pronged approach consisting of “mutually reinforcing and complementary components”, a consideration of the benefits and costs of the various instruments that have been employed in the recent past, it is further added, constituted the “starting point” of the discussion (2020c:2).

Schnabel (2020c) further, highlights that actions were directed through the following objectives:

- The need to restore the orderly functioning of euro area financial markets which suffered from an extraordinary degree of volatility, fast de-risking and thin liquidity conditions;
- To ensure that accommodative monetary policy continued to be transmitted to all parts of the single currency area, thereby supporting firms and households in shouldering the substantial economic and social costs that the crisis would generate...

The three components are as follows (2020c):

- Broad based asset purchases to address the illiquidity and heightened volatility in core segments of euro area financial markets that threaten to impair smooth transmission of monetary policy – the temporary pandemic emergency purchase programme (PEPP) constituting the core of the first component; with purchases in the region of €750 billion of

“eligible” private and public securities through 2020 – and longer if required, being foreseen;

- Measures that ensure that banks remain reliable facilitators of monetary policy and continue lending to the real economy – the enhanced targeted longer term refinancing operations (TLTROs), as well as a comprehensive set of collateral easing measures comprising the second component;
- The third component relates to the ECB’s traditional role as lender of last resort to solvent banks – a vital part of the component comprising of the provision of liquidity to banks over longer horizons at the rate of deposit facility, a negative rate – with no conditions attached.

Given the apparent and prevailing levels of uncertainty in the timing, manner of implementation of some of the measures, it is expected that some degree of flexibility will be required in their implementation. It is added that the “objectives of financial policies should influence the type and extent of adjustments and that if such policies are taken too far, adjustments could backfire”.

Jurisdiction	Government guarantees	Capital requirements	Asset Classification	Expected Loss Provisioning	Dividends and other payouts
Australia	Yes	Encouragement to use buffers	New guidance	New guidance, introduction of transitional arrangements	Expectation to limit
Canada	Yes	Lower Domestic Stability Buffer, Encouragement to use Buffers	New guidance	New guidance	Expectation to halt increases
EU/SSM	Yes (*)	Release CCyB, Encouragement to use buffers	New guidance	New guidance	Expectation to halt
Japan	Yes	Encouragement to use buffers	Adjust risk weights of certain loans	-----	-----
United Kingdom	Yes	Release CCyB, Encouragement to use buffers	New guidance	New guidance	Expectation to halt
United States	Yes	Release CCyB, Adjust supplementary leverage ratio	New guidance, definition of restructured debt	Optional suspension, extension of transitional arrangements	Expectation of prudent decisions, smoothing of automatic restrictions

Source: Financial Stability Institute, FSI Briefs : Reflections on Regulatory Responses to the Covid-19 Pandemic, April 2020 page 2

(*) conditions may vary across member countries

Source: Publications by national authorities as of 7 April 2020

According to Borio and Restoy, principles which should direct and guide the assessment of adjustments are as follows (Borio and Restoy; 2020:2):

- The adjustments should be effective in supporting economic activity – applying at least to the crisis period and preferably beyond when determining the basis for a robust recovery;
- The adjustments should preserve the health of the banking/financial system and banks should remain well capitalized, liquid and profitable to underpin sustainable growth;
- Adjustments should not undermine the long run credibility of financial policies

It is further accentuated that transparency is pivotal in meeting the abovementioned principle.

The huge debt owed to essential workers – who the society needs and will continue to need also further accentuates the lessons which have been drawn from this economic and medical crisis. The consequences of globalization have also made the world a much smaller place. To exclude one community would ignore the reality of the situation since what affects one now also impacts others.

As well as highlighting the fact that “the current estimated impact on global GDP growth for 2020 would be around -4%, with substantial downside risks if containment policies are prolonged – output losses being larger for major economies,” Boissay and Rungcharoenkitkul (2020:1) also add that the globally synchronized lockdowns and trauma of financial markets reinforce one another into an unprecedented economic sudden stop – a feature which in their opinion, further makes the COVID-19 global recession unique.

....”the globalization that we have seen over the last 30 years was already starting to be called into question. It will continue to be, probably involving a redefinition of priorities and greater autonomy within Europe.” (BIS, 2020b:6)

In addressing the impacts of globalization, several proposals have been made (BIS; 2020a:3):

- Relocations and shorter supply chains, as well as a shift towards a reflection on value and fair prices
- The review of competition rules in order to speed up the emergence of European "giants" that would be able to ensure its autonomy in other strategic sectors.

In affirming that "a rethink on globalization" preceded the crisis and that it has become more acute – prompting the need to reconsider "our way of life", Lagarde states that "it is hoped that multilateralism will come out of this stronger, not weaker."

In line with the theme of multilateralism, Rehn also adds that there is no historical evidence that suggests that hegemony would create a more stable global monetary order than effective multilateralism..

Recent developments in efforts aimed at mitigating discrepancies between accounting and prudential regulation have been evidenced through the adoption by the International Financial Reporting Standard (IFRS) and the US Generally Accepted Accounting Principles (US GAAP) of a "more forward looking" expected loss approach for loan loss provisioning – with variants of the approach entering into force in January 2018 and December 2019, respectively (Borio and Restoy, 2020 :5). However, it is also argued that even though the "new forward looking standard" has the potential to mitigate excess pro cyclical, it requires banks to start provisioning for future expected losses before borrower defaults – and that this would not address the case of a "truly unexpected shock" such as that presented by the COVID-19 pandemic. The importance of achieving the right balance between the impact of procyclicality and a transparent recognition of bank asset valuations , as well as the right balance between reducing procyclicality and maintaining the credibility of the financial statements and accounting standards generally, is also emphasized with the concerns that transitional arrangements which most jurisdictions have adopted under the original BCBS guidance, only partially mitigate the problem (2020:6)

The similarity of approaches adopted by central banks in implementing measures which support liquidity and market functioning is also made with reference to the Fed Reserve's swift engagement in aggressive balance sheet expansion and established swap lines with other central banks to support U.S dollar liquidity – the ECB also doing the same to safeguard euro liquidity (Rehn, 2020). Rehn also proposes the idea of a new SDR allocation since in his opinion, as larger central banks like the Federal Reserve and the ECB are providing ample liquidity..., "why not extend such liquidity-producing impact in a global context (through the new SDR allocation)?"

Conclusion

As highlighted by Christine Lagarde, “what is certain and quite clear is that the longer the economy remains in shutdown, and the longer the weeks of lockdown continue, the greater the resulting economic damage will be; restarting will clearly be hard for certain sectors while for others it will be faster, but the precise conditions for restarting are rather uncertain.”

It is certainly the case that a degree of judgement and flexibility will be required in the short term owing to levels of uncertainty which have been triggered by the COVID -19 pandemic. Consequently, incorporating uncertainty elements and flexibility into the equation would only generate greater uncertainty over time if adjustments do not become more rigid and flexible – generating effects synonymous with pro cyclicality and multipliers. Regulation and control are pivotal in addressing scenarios which could be subject to abuse - given inadequate levels of control – as well as unduly high levels of subjectivity and judgment. Whilst adequate balances need to be struck between the need to ensure that decisions are not made in a way which impacts procyclical effects in such a manner that unreliable forecasts are generated, as well as ensuring that such decisions are determined in a flexible manner, it is evident that as certainty is generated with time and tried tested procedures, in respect of the nature , causes, manner of transmission of the outbreak, less flexible guidelines which confer greater consistency and comparability in their application will be required.

“A globally symmetric crisis calls for a globally coordinated policy response.” A global crisis surely requires global coordination and cooperation in order to effectively achieve a correspondingly and appropriate global response.

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