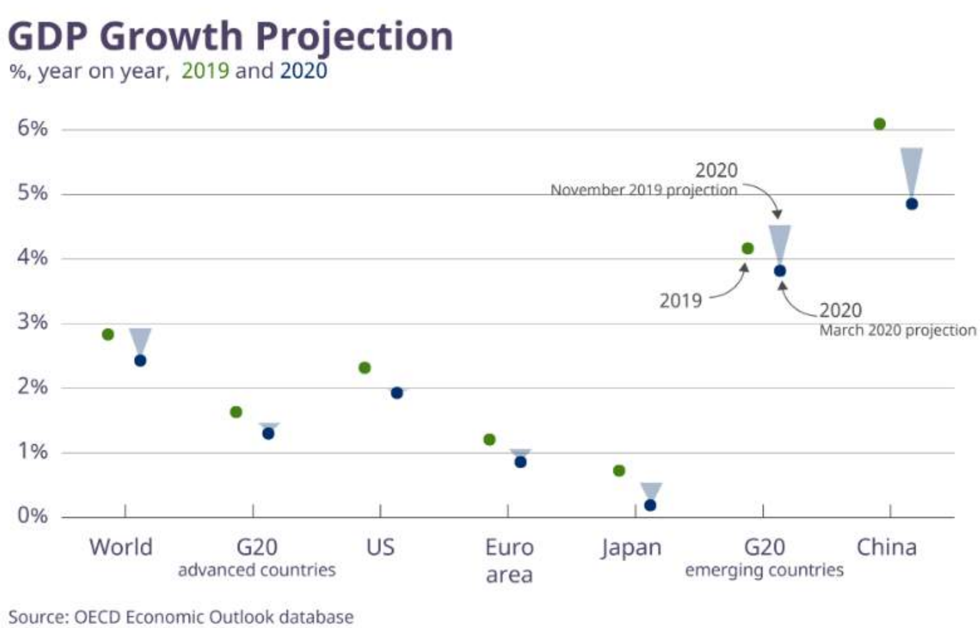
# Monetary and financial policy actions taken within the framework of the COVID-19

The year 2020 has brought several challenges for the global financial system, since the COVID-19 crisis has generated a negative impact on variables such as liquidity, employment, credits and inflation, among others. The foregoing is evidenced by: (i) a slowdown in worldwide GDP growth, including in both developed and emerging economies as evidenced by the GDP growth projections prepared by the Organization for Economic Cooperation and Development (OECD)[1], as seen in Graph 1 below; and (ii) the report presented by the International Labor Organization (ILO) which envisages that “the COVID-19 crisis is expected to wipe out 6.7% of working hours globally in the second quarter of 2020, equivalent to 195 million full-time workers”[2].




Source: Organization for Economic Cooperation and Development, 2020.

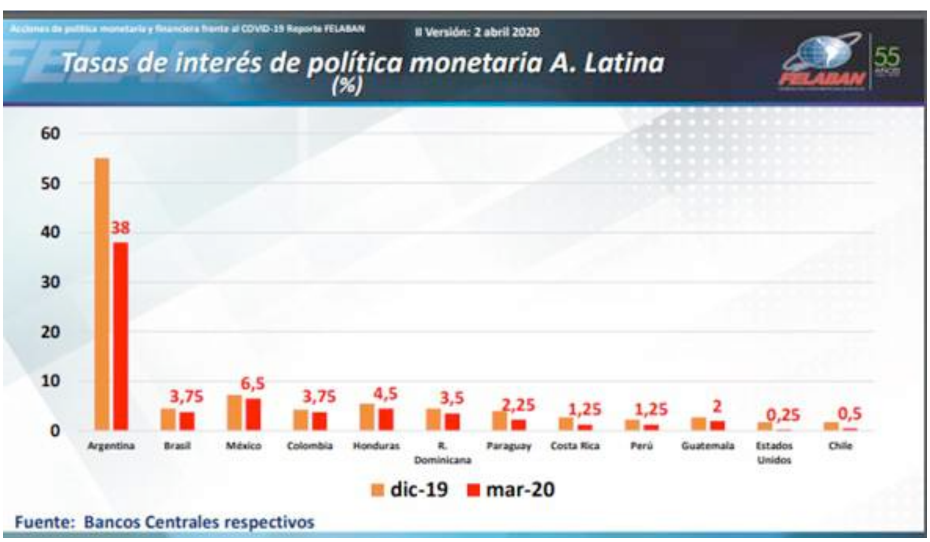
[1] **Organization for Economic Cooperation and Development. Coronavirus: The world economy at risk. http://www.oecd.org/economic-outlook/march-2020/**

[2] **International Labor Organization. COVID-19 causes devastating losses in working hours and employment. https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_740893/lang--en/index.htm**

Therefore, in addition to the global health crisis, the world's major central banks have been concentrating their efforts on preventing a financial crisis from materializing as a result of a loss of confidence in the global financial sector.

The Latin American Federation of Banks (in Spanish "FELABAN") has prepared a report on the monetary and financial policy measures that have been implemented around the globe[3]. Among such measures, the most relevant has been the injection of liquidity in the economies, aimed at preventing a possible worldwide recession. In addition, the central banks of countries with emerging economies have been joining the initiatives adopted by the main central banks (e.g. Federal Reserve System, European Central Bank and Bank of England), such as reducing their interest rates to historically low levels, as shown in Graph 2 below. It must be noted that in the case of Colombia, the central bank (Banco de la República de Colombia) reduced its intervention interest rate by 50 basic points, according to the press release issued by the board of the central bank on March 27, 2020[4]; a relevant fact considering that the Colombian central bank has maintained interest rates stable for almost 26 months, as evidenced in the aforementioned report.

Graph 2. Monetary policy interest rate in Latin America (Tasas de interés de política monetaria en América Latina).




Source: Latin American Federation of Banks, 2020.

[3] Federación Latinoamericana de Bancos (FELABAN). Update of monetary and financial measures regarding COVID-19. (Actualización de medidas monetarias y financieras ante el COVID-19). April 7, 2020.

[4] Banco de la República de Colombia. https://www.banrep.gov.co/es/jdbr-adopto-medidas-adicionales-materia-liquidez-y-manera-unanime-recorto-medio-punto-porcentual-su

The above implies an encouraging scenario, given that countries with emerging economies are observing positive responses in developed countries that have suffered a strong impact on their economies, thus generating an incentive for those emerging nations to investigate and apply alternatives that, despite having a high cost, are necessary to prevent even higher costs in the future from failure to adopt timely strategies.

Notwithstanding, the measures adopted by the central banks of multiple countries must be accompanied by the adoption of parallel strategies aimed at mitigating negative impact from other sectors of the global economy, such as alternative solutions to the oil prices tension that have resulted from failed consensus on production levels. Several media have reported that the member states of the Organization of Petroleum Exporting Countries and Allies (OPEC+) reached an agreement for the reduction in world oil production, within the framework of the COVID-19 crisis and the reduction in the demand for crude oil[5].

The above is expected to contribute to the stabilization of the global economy and financial markets around the world, since oil production affects the volatility of the dollar, and consequently, the different international transactions involving foreign exchange operations.

In the case of Colombia, in addition to the liquidity injections, interest rate reductions and measures aimed at reducing the impact of the COVID-19 on the employment of nationals and the continuity of local markets, President Iván Duque announced on April 9, 2020[6], that in the coming days, the executive power will issue certain decrees contemplating the following measures in order to address the current crisis: (i) State financing of payroll for micro, small and medium-sized enterprises (MSMEs), seeking to cover all employees who receive an income of up to five (5) SMLMV (minimum legal monthly wage); and (ii) increase in credit guarantees up to 80% for MSMEs. For the purposes of this last measure, it has been proposed that MSMEs be allowed to issue debt securities (backed by the Nation), so that these can be acquired by the financial system and that, consequently, the resources obtained can be used to pay the wages of their employees.

**[5] BBC News. México y OPEP: el acuerdo para el mayor recorte en la producción de petróleo de la historia tras la negociación entre Trump y López Obrador. https://www.bbc.com/mundo/noticias-internacional-52259883**

**[6] Public speech. President Iván Duque: https://id.presidencia.gov.co/Paginas/prensa/2020/Palabras-del-Presidente-Ivan-Duque-Marquez-en-el-programa-Prevencion-y-Accion-200409.aspx**

In addition to the abovementioned measures, on April 15th, 2020, the president issued Decree 558 of 2020, implementing temporary measures to reduce the contribution to the General Pension System and protect the pension plans of the retired employees.

In line with the above, the investigation carried out by FELABAN concluded that the Colombian central bank has issued measures aimed at stabilizing the Colombian peso and dollar markets; for example: (i) extending primary liquidity auctions to pension funds, fund administrators and insurance companies; and (ii) authorizing Repo operations, and public debt securities of the national government as collateral.

Although the COVID-19 crisis has had a social and economic impact on most countries, it is expected that the measures adopted will strengthen consumer confidence in the financial market, thus counteracting/thwarting/mitigating the negative effect of the panic produced by the pandemic and by market volatility in contexts such as the current one.

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