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IMF's Role in Post-Pandemic Economic Recovery

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Abstract

The International Monetary Fund is one of the most important international financial institutions, which aims to protect and ensure the development of the global financial system as well as the development of developing countries. The IMF has been the go-to source for help during many times of crisis, and the latest financial and economic crisis following the COVID-19 pandemic was no different. Many countries required aid and policy guidance in order to ensure a fast and strong recovery from the pandemic, and the IMF assumed the role to provide the much-needed support tied to its conditionalities. The aid provided by the IMF had a significant impact on many aspects of economies and led to a considerably quicker recovery, to the surprise of many. The impact of the IMF with regard to rebuilding market trust and financial stability led to a commendable recovery. However, there were several shortcomings as well. The opportunity provided by the need for an economic recovery to reshape economics into a more inclusive, green economic understanding and to reduce inequalities was underutilized, and the characteristic austerity policies of the Fund continued to create new struggles for developing countries with vulnerability. The aim of this paper is to understand the role and impact of the IMF during the post-pandemic economic recovery.

Keywords: Conditionalities, financial institutions, green economics, inequality, public debt

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Introduction

In 2020, the international financial system as well as national economies felt a heavy blow from the emergence of the COVID-19 pandemic, which shook the globe. The pandemic had a severe impact on many sectors of international economics, from international trade to financial institutions, from growth rates to inflation. The pandemic virtually brought whole economies to a halt as businesses were shut down and supply lines were disrupted due to strict regulations to prevent the spread of the pandemic. There is no question that the impact of the pandemic on national economies was severe, and even after the end of the pandemic lockdowns, national economies still felt the aftershock of the pandemic era with high inflation rates, recessions, and economic crises. The severe lockdowns caused numerous issues for countries, including economic recession, increased inequality, an increase in poverty, and high inflation rates (World Bank, 2022).

Observing the dire situation caused by the COVID-19 pandemic, it was obvious that financial institutions were needed to cover for the damage, especially in developing and vulnerable economies, which faced dire consequences. The recovery period developed in a much more optimistic fashion contrary to many expectations (Gourinchas, 2023) with many aspects of the economy reaching pre-pandemic figures within a short period of time. This rapid recovery can be attributed to several factors, from decisive action in relief packages and economic reforms of governments to the effective intervention of international financial institutions in mitigating the effects of the crisis, which will be the focus of this paper. The International Monetary Fund (IMF), which is one of the primary international financial institutions responsible for maintaining global financial stability, provided numerous financial aid packages as well as policy guidance to countries in order to help mitigate the adverse effects of the pandemic and the post-pandemic economic crisis on the national economies. The IMF employed numerous instruments in order to mitigate the impact of the crisis, which ranged from rapid financing instruments to flexible credit instruments, among other instruments that are specifically tailored for arrangements designed for times of emergency (IMF, 2024). However, it is vital to analyze and understand how effective the instruments and policies employed by the IMF have been in mitigating the crisis and what role the IMF has played in the global post-pandemic economic recovery phase.

In order to provide a clear focus and precise aim for the study, this paper will work based on the following research questions:

1. What was the role of the IMF in post-pandemic economic recovery?
2. What was the impact of IMF instruments in strengthening the economic recovery?
3. What were the shortcomings in the IMF's approach to post-pandemic economic recovery?
4. What are some policy recommendations that may improve the effectiveness of the IMF in mitigating crises?
5. What has been the role of the IMF in public debt management in post-pandemic economic recovery?

The research questions stated above will serve as a guide for the research of this paper and will also be addressed in the conclusion of this paper.

Problem Statement

Post-pandemic economic recovery has been, understandably, the main focus of economists as well as policymakers throughout the world, as the importance of mitigating the financial and economic crises deriving from the pandemic, the lockdown, and its aftermath is crucial in ensuring the stability and health of our economies as well as the global financial structure. Considering this, the International Monetary Fund, by nature, had a crucial role to play in ensuring that the post-pandemic economic recovery is successful and provides satisfying results. Therefore, it is important to understand the importance of the role of the IMF in the post-pandemic economic recovery, what were the measures that the IMF took and their impact in this regard, which will give us a better understanding of the effectiveness (or ineffectiveness) of the IMF as an international financial institution and will also serve as a potential reference for possible crises in the future, while also scrutinizing the IMF and its role. The pandemic and the economic instabilities that arise from it have also put into question the ability of states to achieve proper public debt management and sustainability. The efforts and guidance of the IMF, as an international financial institution in this regard, are also vitally important to understand the role of the IMF in the post-pandemic economic recovery period.

Literature Review

Observing the dire global financial situation during and following the COVID-19 pandemic, the IMF engaged actively in order to offer financial aid and play a role in mitigating the crisis and ensuring a strong economic recovery post-pandemic. Utilizing the specific financial packages, or instruments, such as the rapid financing instruments, in order to effectively and quickly deliver aid to countries in need. The funding for these aid packages came from the Catastrophe Containment and Relief Trust (IMF, 2021) which was designed to provide grants to struggling economies facing extraordinary crises. Additionally, the Fund also published a report (Agarwal & Gopinath, 2021) which provided detailed guidelines for countries in order to effectively end the pandemic and to begin a rapid economic recovery, the report included details for social and health policies as well as a pledge of funding from the IMF.

According to some authors (Kentikelenis et al., 2022), in the path to economic recovery post-pandemic, the IMF has rejuvenated its role as a key financial institution in global economic affairs by providing much-needed assistance and policy guidance to states. The authors suggest that the IMF, not only with its aid packages but especially with its policy guidance in ensuring a just economic recovery, focusing on reducing inequalities and aiming to achieve a green and inclusive economic recovery, has made a significant impact. The IMF had stressed that the post-pandemic economic recovery should be seen as an opportunity to restructure the economic system, to ensure a more inclusive, green, and sustainable understanding of the economy (IMF, 2024). The authors also point out that through the IMF's leading role in the post-pandemic economic recovery, the climate change debate has received a new impetus, leading way to a more encouraging outlook on green economic policies.

Authors such as (Ramos & Gallagher, 2022) have also pointed out that the IMF has changed course following the pandemic crisis and has shifted its attention towards improving health outcomes, protecting vulnerable people and firms, and addressing climate change during the post-pandemic economic recovery period, instead of focusing solely on fiscal issues. The authors also point out that IMF senior officials have significantly made the issue of climate change and a shift towards green economics a priority in their narratives, albeit the attention towards these issues has a large room for improvement.

On the other hand, authors such as Jrad et al. (2023) have pointed out that although the IMF has encouraged such policies, the characteristic austerity measures stipulated by most IMF agreements may lead to an increase in income inequality and deepen the wounds of the pandemic in the post-pandemic economy. The authors stress that there are several case studies in the MENA (Middle East & North Africa) region, the IMF has agreed to provide loans and packages under austerity measure stipulations, even though the IMF has stated that most of the emergency response packages provided to countries due to the pandemic crisis are free from the typical conditionalities. The authors stress that through the implementation of such IMF-led economic recovery programs, the crisis may be deepened, and the most vulnerable categories of society post-pandemic may continue to struggle. This leads to a peculiar position in which the IMF may need to change course, especially in its understanding of policy in mitigating crises, considering the extraordinary situation in which the global economy finds itself, post-pandemic.

The same argument is also supported by Tamale (2021). In a study that found that 85% of loans negotiated between the IMF and 85 national governments in response to the pandemic crisis indicate plans to undertake austerity measures. The author states that although the austerity measures encouraged by the IMF may be effectively applied and provide results in high-income and developed countries, developing countries with high poverty rates will be negatively impacted, as the austerity measures would be a burden on the more vulnerable categories in society, leading to higher inequality and poverty. This is also supported by other studies such as a case study which has focused on Argentina, Greece and Türkiye (Ibish & Ferhad, 2023), highlighting how these measures which are considered as tendencies of IMF conditionalities have negatively impacted economic development in such countries, once again highlighting the necessity for a multilayered approach in such matters.

Authors such as (Merling, 2021) emphasize that the "market fundamentalism" of the IMF, which aims to encourage growth through austerity, is counter-productive, as increased income inequality through austerity measures and deregulations under structural reforms pushed for by the IMF has been shown to hinder consistent and reliable economic growth. Merling has pointed out that the Fund must reform its understanding of economic policy guidance and engage in a more flexible approach in order to ensure an effective post-pandemic economic recovery and decrease the widening income inequality, which was further put under the spotlight following the pandemic crisis.

The impact of the pandemic on the public debt, especially in developing countries, has been very visible. A study by Harada (2024) demonstrates this, pointing out that the high spikes of inflation, increased market volatility, and cutbacks on foreign capital have led to financing issues in developing countries, which further hinder the possibility of public debt sustainability in these states. The study also points out the importance of the IMF in such situations, stressing that developing countries lack the financial capabilities to counter economic hardships caused by the pandemic, and as a result must rely upon effective support by international financial institutions like the IMF for support, with the number of developing countries approaching the IMF for financial support and policy guidance reaching over 100.

A study by Kose et al. (2021) points out the increasing crisis with regard to public debt that has been plaguing developing countries, while highlighting the reality that increases in public debt have been a consistent trend even before the pandemic, stating that the "fourth wave of debt" has turned into a tsunami following the pandemic. The study suggests that developing countries must ensure financial support and investments, while also being in coordination with international financial institutions, in order to realize effective policies in preventing widespread debt crises. The study also points out the necessity of instruments and finances from the IMF to developing countries, to be formulated in the form of lending into arrears (LIA) programs, in order to add lending conditionalities to borrowing countries, and ensure ambitious reforms and tackle the increasing public debt. The impact of the COVID-19 pandemic has also further intensified and brought into the spotlight shortcomings in terms of political stability and institutional capacities, as pointed out in some studies (Kaytan, 2025) which highlight the role of international organizations in mitigating the impact of institutional shortcomings on economic development.

Following the COVID-19 pandemic, International organizations (IMF, 2020; OECD, 2020) provided guidance reports on addressing the issues and new challenges that may arise with regard to public debt management. Having in mind the impact of the pandemic on numerous aspects of the economic directly related to the management of public debt, such as the need for increased budget expenses to tackle the health crisis and mitigate the effects of the shutdown, a decrease in external demand and capital for developing countries, among others, the policies employed to mitigate such issues is of vital importance in avoiding a debt crisis and the role of the IMF in this regard should be thoroughly analyzed. Some countries have effectively managed this bounce back, one of the examples being North Macedonia, which has effectively managed to mitigate the effects of the pandemic and rejuvenate its economy through targeted policies of financial relief to businesses and households through subsidies and tax-cuts (Ibish & Ferhad, 2024), while this has been effective, the policies indicate that particularly for developing countries, the path forward should not be one of austerity but consideration for vulnerable categories of the economic sectors. The policy guidance report by the IMF acknowledges the importance of international financial institutions in this period, encouraging developing countries to avoid financing by their central banks and view it as a last resort, instead opting for additional funds from the IMF instruments, and utilizing the Medium-Term Debt Management Strategy framework (Balibek et al., 2019) as guidance.

On the other hand, a study by (Klutse et al., 2023), focusing in the developing countries of Ghana and Kenya and their public debt management post-pandemic, has pointed out the dangers of developing countries relying upon borrowing from international financial institutions for managing their public debt, mainly the IMF, highlighting the increased debt service rates and inefficient spending of the borrowed funds, which leads to an endless cycle in which the public debt is further increased and the possibility of a debt default is considerably high. Instead, the paper points out that developing countries must focus on establishing domestic fiscal buffers (savings) and fiscal space in order to properly service their debt and ensure proper public debt management.

Research Data and Methodology

The paper will work with secondary data, provided by academic articles, as well as data from international financial institutions. To analyze the role and the effectiveness of the IMF during the post-pandemic economic recovery period, this study will employ the use of the data provided by the IMF COVID-19 Recovery Index (Gallagher & Carlin, 2020) which provides an evaluation of 0 (worst) to 3 (best) of the effectiveness of IMF responses in countries post-pandemic based on three main parameters: Health, protecting the vulnerable and Green Recovery. Observing this data, an assessment will be made on the effectiveness and role of the IMF during the post-pandemic economic recovery, over a wide range of countries.

Findings

It is important to mention that the Fund focused on developing countries for their emergency support, considering that the pandemic had the highest effect on the financial and social situation in these vulnerable states. The funds released through the CCRT (Catastrophe Containment and Relief Trust) were given under the condition of receiving countries undertaking governance measures to promote accountable and transparent use of these resources (IMF, 2021). It is understandable that the regular IMF conditionalities did not apply in these cases, considering the urgency and the extraordinary nature of the pandemic and the following financial crisis.

When it comes to the IMF's responsiveness in terms of Public debt sustainability in developing countries, there are many areas in which there is vast room for improvement. Although the IMF has initiated programs in line with the sustainable development goals (Munevar, 2020b), the Debt Sustainability Analysis and the following policy guidance have shown to neglect various aspects of social development, which leads to questions regarding the relevance of the DSA framework, having in consideration the emergence of new issues in developing countries tied to post-pandemic economic recovery. As reports (Munevar, 2020a) indicate, the IMF has steadily provided financial assistance aiming to directly tackle the debt crises related to the pandemic; however, at the risk of hampering social development with harsh austerity measures, ignoring the impact of social development and public investments on the sustainability of public debt.

According to the IMF COVID-19 Recovery Index, the performance of states that received IMF guidance and aid after the pandemic for economic recovery performed an overall average of 2.65 out of 3 in support of vulnerable categories, which signifies a significantly above-average performance. The index also shows that the IMF has lent much of its focus on health and aid issues, with the index showing a performance of 2.39 out of 3 in that regard. Contrary to these, Green Recovery has significantly underperformed with a score of 0.42 out of 3.

The index has clearly shown that the IMF has designated its main focus to protecting vulnerable categories and health-favorability as more urgent issues to be addressed post-pandemic; the issue of green economics has taken a back seat, supporting the criticism put forth by authors mentioned in the literature review. The overall rating assessed by the index to the performance of IMF aid is 1.82 out of 3, which leaves a lot of room for improvement, especially when considering the dire importance of economic reform and recovery.

What Was the Role of the IMF in Post-Pandemic Economic Recovery?

During the Pandemic crisis and the post-pandemic economic recovery, the IMF had engaged in numerous agreements with vulnerable and developing countries in order to provide much-needed financial aid and policy guidance to mitigate the effects of the pandemic crisis and to ensure a proper economic recovery in order to protect the global financial system and prevent a domino effect. In line with this, the IMF created an overall policy of rebuilding the economies of developing countries with varying levels of success, with most of the focus going to ensuring the protection of the fiscal stability in these nations, as well as building stronger health institutions. However, there are several criticisms that can be pointed out, such as a lack of proper implementation of the green economic reform plans and the insistence on the austerity measures regardless of the increase in vulnerable categories in society.

What Was the Impact of IMF Instruments in Strengthening the Economic Recovery?

There is no doubt that the IMF had a significant impact on the post-pandemic economic recovery period, considering the enthusiastic packages and policy guidance provided by the Fund. The IMF had a considerable impact on rebuilding trust in financial institutions, acting as a stabilizing factor to the markets, ensuring a level of protection to vulnerable categories of society, as well as building health favorability. The IMF utilized the Rapid Credit Facility and the Rapid Financing Instrument in order to effectively and rapidly intervene in struggling economies and provide the much-needed aid as fast as possible. Utilizing these instruments, the Fund also softened its conditionalities and requirements, observing the urgency and severity of the financial and economic crisis at hand. These instruments had an immediate effect in providing funds to states when the global economy had come to a halt, and countries were facing striking levels of deficits. The immediate relief led to the receiving states being able to implement policies in order to tackle the health crisis and its effects on all sectors of the economy. The positive impact of this rapid intervention cannot be ignored, as these funds were vital for receiving states in avoiding an economic crash and meltdown, which would have created a domino effect throughout the global financial markets.

What Were the Shortcomings in the IMF Approach to Post-Pandemic Economic Recovery?

There were several shortcomings that can be detected with regard to the IMF's performance in the post-pandemic economic recovery. The initiative of rebuilding the global economy on the basis of green economics has been admittedly lackluster; the IMF has not brought up the necessary attention to capitalizing on the need for economic recovery after the pandemic to reshape the global financial system and economics into a more equal, inclusive, and green characteristic, although such intentions were displayed by IMF officials. On the other hand, the IMF continued its austerity measures as conditionalities for states receiving emergency aid for economic recovery, which may have crippled the economic recovery of these societies, which had an increased vulnerability following one of the most impactful economic crises in recent history during and after the pandemic crisis.

What are Some Policy Recommendations That May Improve the Effectiveness of the IMF in Mitigating Crises?

There are many commendable aspects of the instruments and approach used by the IMF in mitigating crises; there is significant room for improvement. As demonstrated throughout this paper, the International Monetary Fund should pay further attention to the internal context and needs of states and in that line tailor its conditionalities and policy guidance in that regard. The fund has yet to adapt to the ever-evolving nature of economics, and the contemporary issues of economic and financial needs in states, especially developing countries, are still not properly taken into consideration. The IMF must acknowledge the glaring issues within developing states that make them ineffective and unprepared in implementing the conditionalities of the Fund as they stand. Instead, the IMF must focus on reducing inequalities, improving institutional strength, and ensuring a stable and reliable market within these states. The fund has lacked in all three aspects in its policy guidance and packages for developing states.

IMF policy guidance within developing states must encourage the development of a proper welfare and social system, reduction of corruption within public institutions and the development of strong and reliable financial institutions before considering austerity measures in these states. The implementation of these measures can ensure that developing state face future crises more effectively and become more reliable partners for the IMF and the global financial system.

The implementation of a proper welfare and social system would ensure that the vulnerable categories within developing states would have a safety net to rely on during crises, whether it be within a health or financial context, and ensure that during crises, the state would not be so heavily burdened by a devastated part of society unprotected by an effective welfare system. Steps taken to reduce corruption within public institutions would ensure a more effective implementation of state policies and effective use of the state budget, which would have an impact on the balance of the budget and the authority of the state in curtailing crises. The development of strong financial institutions would provide stability and reliability to the state's financial policies and the domestic market, which would increase domestic and foreign investments and the stability of the economy.

What has been the Role of the IMF in Public Debt Management in Post-Pandemic Economic Recovery?

The IMF has consistently provided policy guidance and financial support through its lending programs to developing countries following the pandemic and the post-pandemic economic recovery period, having in mind the urgency of addressing rising public debt. Although the austerity measures tied to IMF conditionalities are prone to ignoring the importance and impact of stagnated economic development and public investments on the public deficit, and thus the sustainability of the public debt.

The IMF and other international financial institutions have consistently been criticized for the neo-liberal tendencies of their financial assistance programs, ignoring the importance of safety nets, welfare programs, and public investments. Having in mind that GDP growth is an essential part of achieving public debt sustainability, the IMF should consider re-visiting and adjusting its programs and, in fact, its DSA framework, to incorporate the need and necessity of social development, public investment, and protection of vulnerable categories of the economic strata from the austerity measures that are characteristic of IMF programs.

However, for most developing countries, the IMF continues to be a safe-haven against debt crises and potential debt default, especially in times of economic crisis, market shocks, and volatile international finances, of which the pandemic and its economic consequences have been a primary example.

Conclusions

The International Monetary Fund has been a key player during times of financial crises, and countries have looked to the IMF for policy guidance and aid packages in order to mitigate financial crises for decades; however, the delivery of the IMF has not always been successful. As the paper has covered, there have been many criticisms with regard to the IMF's approach to tackling the pandemic crisis and economic recovery following the pandemic. The main criticism is the underutilization of the opportunities presented by the post-pandemic economic recovery, in which the Fund could have imposed more ambitious reforms through its conditionalities and ensured a platform for a more inclusive and green economy in the future. However, it should also be considered that the urgency of the crisis required an immediate response through extraordinary funds, which limited the possible approaches with regard to the conditionalities and requirements of the Fund towards receiving states.

On the other hand, the nature of the IMF packages directed towards post-pandemic economic recovery was focused on developing countries, which were struggling immensely due to the pandemic and the post-pandemic economic crisis. Having this in mind, ensuring that the crisis does not deepen and create a larger financial burden, and the lack of potential spill-over effect of these ambitious reforms within these developing countries on the overall global financial structures, it is understandable why the Fund avoided harsh conditionalities in this regard.

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