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Economic recovery from COVID-19: What should we do individually and collectively?

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I would like first to thank the G24 Secretariat for having extended the invitation to attend this digital meeting. My special appreciation goes also to the organizers for having set the appropriate arrangements to hold this important meeting under the circumstance of global COVID 19 pandemic, which poses significant challenges to all economies across the globe.

Economies and financial markets around the world have been and are still affected by the emerging coronavirus pandemic, which has posed unprecedented challenges on policymakers to advance economic development. Indeed, the necessary containment measures to halt the spread of the virus have sharply slowed down economic activities, leading most countries to deal with larger and more complex financial challenges and has experienced significant strains from global financial markets. This unpredicted situation has compelled policymakers around the world to set targeted fiscal packages and support programmes such as direct cash transfers, suspension of rent and utilities payments, and other means to overcome economic shocks both on individuals and companies, particularly MSMEs. In addition, Central banks eased monetary policy stance and provided liquidity to ensure support for SMEs and hard-hit sectors. In this context, I would like to direct my statement towards Central Banks' strategies to support economic recovery post COVID 19 pandemic.

As known, many central banks have launched stimulus, precautionary and preventive measures utilizing monetary policy instruments to inject liquidity into the banking sector, through backing mechanisms including interest rates space and reserve requirements, enabling banks to reschedule loans and defer repayments repayment plans of consumers. In addition, several central banks have launched various support programs focusing on the sustainability of productive sectors, which include, among others, facilitation in credit/loan guarantee schemes enabling the banking sector to reschedule loans for individuals and enterprises alike. Moreover, the Basel Committee’s oversight body announced that Basel III implementation will be deferred by one year to help banks and supervisors coping with the impact of the coronavirus disease. Furthermore, several central banks have decided to take swift macroprudential measures to offset the painful economic and financial effects of COVID-19, while finance ministries have taken several measures to support the real economy, under fiscal policies space.

The above measures aim to support economies not only in mitigating the impact of the pandemic, but also beyond the crisis to build strong recovery phase. Central Banks and Governments around the world prepare for the post-crisis era by carefully timing and phasing the reversal of crisis-specific exceptional measures and monetary instruments in order to minimize the potential impact while ensuring a speedy and maximized economic recovery. In this regard, I would like to emphasis the importance of coordination between the economic and macro-prudential policies as well as the need for a balanced timing and phasing approach to reverse the support measures, as their early withdrawal may lead to decrease the required credit volumes that support corporates and household. In the meantime, the delay in reversal of stimulus packages may, in turn, increase the systemic risks in the whole financial sector.

Furthermore, supporting economic recovery will require a continuous adoption of an accommodative monetary policy enabling a gradual back to normal in coordination with the fiscal policy and macroprudential policy tools. In addition, Central Banks may consider also reintroducing the capital and the liquidity buffers, in an incremental and gradual way as well as an assessment of the need to maintaining current restrictions on dividends distribution in the banking sector. Policymakers may therefore face a growing trade-off between the need to continue providing support in order to counter the impact of the crisis and preventing overindebtedness of both corporates and households, which may lead to a build-up of financial vulnerabilities and undermine longer-term growth.

On another hand, the current crisis has revealed the importance of Fintech and innovations in financial services that may support the recovery phase. Therefore, policymakers may consider strengthening the digital infrastructure of the financial sector, encouraging digital transformation, and creating development and investment opportunities in the fields of financial technologies. This potential increase in demand for digital solutions could provide a lifeline to Fintech firms at a time when venture capital funding may not be an option. In addition, weakening economies may force government organizations and regulators to stimulate the expansion of Fintech solutions.

Moving ahead, and given the proactive role is playing throughout this crisis, the AMF stresses on the need to prepare for the post-crisis era and ensure a swift and sustainable recovery by building on wide range of guidelines and principles issued by the AMF in 2020, in particular those covering ways for Central Banks to deal with COVID-19 implications on Financial Stability, Central Banks' strategies to supporting economic recovery post the COVID 19 pandemic as well as Approach for digital financial transformation in the Arab world. These principles culminate the outcome of several rounds of discussions and consultations with Arab Central Bank Governors, Deputy Governors, and with several associated committees and task forces, including Committee on Banking Supervision, Financial Stability Task Force, Financial Inclusion Task Force, Committee on Payment and Settlement Systems, and the Regional Fintech Working Group.

Beyond the crisis, more than ever, cooperation among all partners is vital to prevent lasting economic effects across the world. The Central Banks might compile the lessons learned from the Coronavirus crisis as well as the future implications across key aspects including: Financial stability, banking supervision, monetary and prudential policies, Fintech, financial inclusion, development of early warning systems, crisis management, recovery plans, and macro and micro stress tests. In addition, building resilience to the effects of climate change is another challenge that Central banks should address through efforts to broaden credit access. In this regard, Central banks should urge the financial sector to adopt measures to deal with the expected impact of natural disasters and climate changes on credit, operational, and market risks. Furthermore, the Central Banks should continuously evaluate the impact of policies and tools that have been adopted in terms of their effectiveness and long-term impact rather than their immediate results; this also applies to central banks' consideration of undesirable outcomes arising as well as the approach to mitigating them. On the other hand, it is very important to assessing the expected impact on their Financial Soundness Indicators (FSIs) for the banking sector, especially the ratio of non-performing loans, capital adequacy ratio, profitability and liquidity, and put in place a time plan that addresses any weaknesses or deficiencies therein.

Finally, I would like to reiterate AMF's readiness to deepen further its cooperation with regional and international financial institutions with the aim to continuing together providing the necessary support to member countries in their efforts of addressing crisis implications and speeding up the recovery phase in a safely manner.

Thank you!

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