

INTERNATIONAL MONETARY FUND

Progress Report to the International Monetary and Financial Committee on Fund Initiatives to Promote Avian Flu Preparedness

April 18, 2006

- 1. There is widespread concern about the possibility of an avian flu pandemic and its implications for humans, and for the global economic and financial system.** While the H5N1 virus cannot transmit efficiently from human to human in its present form, a mutation allowing such transmission could lead to a pandemic that might have high costs. Accordingly, the Fund has been active in raising awareness about the potential economic and financial risks of a pandemic, and in helping member countries to undertake contingency planning in their financial sectors.
- 2. Although any predictions are subject to a high degree of uncertainty, a severe pandemic would be likely to have a significant economic impact.** A high level of absenteeism could lead to a sharp but temporary decline in global economic activity. Demand could contract sharply, with consumer spending falling and investment being put on hold, while trade and tourism flows could be interrupted in some countries. The fiscal challenges associated with an AFP could be significant, especially for low income countries, and some countries could face overall balance of payment pressures.¹
- 3. A pandemic could also pose important challenges for the global financial system.** Operational risks arising from the possibility that high absenteeism could disrupt critical functions and services of the financial system, including payments, clearing and settlement, and trading. Such disruptions could also spill over into other jurisdictions. Advanced planning in the form of business continuity plans can go a long way in minimizing the potential for such costly disruptions. As regards financial markets, some increase in risk aversion is highly likely, leading to a greater demand for liquidity and for low-risk assets. While the “flight to quality” ought to be temporary, asset price declines could put the balance sheets of some financial institutions under stress and they may face challenges in meeting regulatory norms. There could be a period in which net capital flows to emerging markets decline, or are even reversed, particularly for countries with relatively weak fundamentals.

¹ The economic and financial impact of a pandemic are discussed in the *Global Financial Stability Report* (<http://www.imf.org/external/pubs/ft/GFSR/2006/01/index.htm>) and the *World Economic Outlook* (forthcoming, April 2006).

4. **Preparations to limit the impact of the avian flu outbreak are rapidly moving to the forefront of policy priorities in many countries and international organizations.** At the Beijing International Conference, a milestone agreement was reached to pledge US\$1.9 billion to help support efforts at all levels to help fight avian flu and to prepare for a possible AFP. The World Bank, the World Health Organization (WHO), the World Food and Agriculture Organization (FAO), and the Organization for Animal Health (OIE) are taking the lead in preparing a global coordinated response strategy to the possibility of an avian flu crisis and helping members improve surveillance and control capacity, and develop national action plans that focus primarily on human and animal health.

The role of the Fund

5. **The Fund is encouraging countries to prepare for a possible pandemic, and facilitating cooperation across countries in preparing contingency plans, particularly in the financial sector.** Should a pandemic emerge, the Fund will advise members on appropriate macroeconomic policies and help support them with balance of payments financing where this is needed.

6. **To help raise awareness, the Fund has published a paper on “The Global Economic and Financial Impact of an Avian Flu Pandemic and the Role of the IMF.”**² An attachment to the paper contained a distillation of the elements emerging as good practices in business continuity planning in the financial sector for pandemic risks. Executive Directors were encouraged to share this document with their capitals. In addition, Fund missions are discussing with member authorities their preparedness for an AFP, especially with regard to the financial sector.

7. **The level of preparedness in the financial sector for an AFP varies significantly across the Fund’s membership.** Some countries, particularly those affected by the 2003 SARS outbreak, are well advanced. In other countries, the official and private sector appear only now to be starting to develop a comprehensive approach to this threat. Cross-country coordination is being supported by efforts of the Financial Stability Forum and the Joint Forum, and also by the Fund.³

8. **To facilitate sharing of knowledge and experience in business continuity planning in the financial sector, the Fund is organizing regional seminars.** These bring together central banks and supervisory authorities, together with health experts (including from the WHO), and business continuity planners from private financial institutions, to share

² See <http://www.imf.org/external/pubs/ft/afp/2006/eng/022806.htm>.

³ The Joint Forum consists of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. The Joint Forum organized a meeting in Hong Kong, SAR on February 22 to discuss business continuity planning. The Financial Stability Forum met on March 16-17 in Australia and discussed, among other things, pandemic avian flu preparedness.

their knowledge on key issues related to AFP preparedness. Five such seminars will have been conducted by early-May, including four hosted at the Fund's facilities in Singapore, Tunis, Vienna, and Washington D.C., and one hosted by the Reserve Bank of South Africa in Pretoria. Plans are being made to offer additional seminars after the Spring meetings to ensure that all members have an opportunity to participate.

9. **The first two of these regional seminars, held in Vienna and Singapore, were very well received.** Participants concluded that preparedness for a potential AFP were uneven, and that concerted efforts would be needed to incorporate the possibility of a pandemic into traditional BCP frameworks. Several participants noted that, in light of the seminar, they would propose thoroughly overhauling their BCP frameworks.

10. **The Fund would be willing to help organize technical assistance to members preparing for a pandemic.** If requested, such assistance could focus on programs on business continuity planning, mainly in the financial sector, drawing on experienced business continuity planners from central banks and the private sector.

The Fund also stands ready to meet members' balance of payments needs arising from an AFP. Existing facilities, including the Emergency Natural Disaster Assistance would allow for quick response to meet limited needs, with larger amounts available exceptionally. Also existing on-track arrangements could be augmented. These options are available even if Fund staff cannot travel or conduct more than limited policy discussions with the affected countries. However, greater obstacles would be faced under normal procedures if a response to large balance of payments needs, for example, related to multiple capital account crises, is required.