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Statement by Mr. Guedes
Brazil

On behalf of
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Democratic Republic of Timor-Leste, and Trinidad and Tobago

Statement by Paulo Guedes
Minister of Economy, Brazil

On behalf of the Constituency comprising Brazil, Cabo Verde Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

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We are facing a once in a lifetime crisis. The Covid-19 pandemic threatens human lives, poses tremendous challenges to health care infrastructure and provision, and has multifaceted economic impacts. Harsh decisions are being taken by policymakers everywhere to avoid an even larger humanitarian tragedy. Policy action needs to be commensurate, timely, consistent among its several dimensions and globally cooperative. Our first objective remains to save lives, while protecting jobs, income and businesses, which will support a fast and robust recovery as soon as the pandemic is defeated.

The pandemic has a global nature and reminds us of the importance of cooperating internationally. Most, if not all countries, are being severely affected by the crisis and containing the disease in every country is a precondition to its defeat worldwide. The capacity of health systems is being tested everywhere and is a distinctively challenging constraint for developing economies. Containment measures are the first line of defense and could imply closing borders for the transit of people while contagion is still an issue. We must remain mindful of keeping the international economic flows as unobstructed as possible and refrain from protectionist measures.

Growth forecasts have been significantly revised down to a severe, synchronized recession this year. The baseline in the IMF flagship reports suggests a severe contraction – deeper than during the 2008-09 financial crisis – with a relatively fast recovery. With economic activity coming to a virtual halt as a result of the needed social distancing measures, governments are being compelled to step in to ensure that households will have access to basic income during this period of acute paralysis. Equally important is the provision of support to businesses, especially small and medium-sized, to avoid layoffs and protect jobs, creating better conditions for the recovery. Considering that the pandemic has emerged in a context of relatively slow global growth and limited fiscal space in many economies, fiscal measures must be sizable but temporary and well targeted. Accordingly, the reprioritization of fiscal spending, the use of automatic stabilizers, and guaranteeing access to adequate financing will be critical, although the appropriate specific measures will vary substantially depending on country circumstances.

Global financial markets are under enormous stress but policy action has managed to provide the needed liquidity and enhance the confidence of market participants. Financial markets were extremely buoyant immediately before the outbreak, leaving many segments vulnerable to the downturn. While financial market stress has been generalized, the pressure in certain asset classes may become critical, requiring timely measures to remove liquidity constraints and prevent systemic solvency issues. Financial sector reforms after the GFC have brought greater resilience to the banking system, whereas the priority now is to ensure that liquidity flows across the financial system and address vulnerabilities in the non-banking financial sector. Central banks and fiscal authorities have stepped in with comprehensive support measures, which have helped quell some of the worst concerns by markets, businesses and the population in general.

Measures are mostly domestic in nature but tackling the crisis in each country provides an important global public good. That said, there is certainly space for further international policy coordination, especially to address the needs of economies with low level of international reserves and less access to convertible currencies swap lines. Going forward, it is important to increase cooperation in health issues and the investment in pandemic preparedness on a global level, in order to preserve the benefits of strong global interconnectedness.

Emerging markets and developing economies (EMDEs) are facing unprecedented capital outflows. Some emerging market economies have large stocks of international reserves and access to international swap lines or repurchase agreements that allow them to cope with the outflows. However, the extraordinary and compounded nature of the shock (combining dimensions such as health, commodity prices, risk aversion, disruption of global value chains, and global recession) raises to record levels the challenges faced by EMDEs. On top of having to reallocate scarce and, in many cases, already overstretched fiscal resources to reinforce the health systems and support the economy, EMDEs are having to cope with an acute and unparalleled reversal of capital flows, the sudden drop in external demand, a dramatic plunge in commodity prices, in particular oil, and weak prospects for remittances. Many small economies are being particularly hit by the collapse in the tourism industry amid increasing challenges stemming from natural disasters and climate change.

Brazil has put together a substantial policy package to fight the crisis, comprising fiscal measures of close to 10% of GDP, liquidity provision of about 17% of GDP, and other measures to support credit expansion of about 16% of GDP. Many actions to reinforce the public health system have been taken, including hiring over 5,000 doctors, increasing supply of hospital beds and medical goods, removing tariffs and prioritizing customs clearance. Low income, unemployed and informal sector workers totaling over 20 million people have already started to receive a temporary income supplement. Several other measures have been announced to support families, including the expansion of the cash-transfer program, tax deferrals, disbursements from severance funds, and anticipation of unemployment insurance for workers with wage reduction. Measures to support businesses, especially SMEs and the most affect sectors, are being implemented. A multiplicity of actions to enhance access to credit and provide liquidity to the banking system are already in effect. In sum, the country has taken truly extraordinary steps to fight the pandemic, ensure the well-functioning of the financial system and the availability of credit, as well as protect income, jobs and businesses. No Brazilian citizen will be left behind.

While engaged in a resolute fight to overcome the pandemic and its effects, Brazil is not deviating from its ambitious reform agenda. The crisis hit the country in a moment when the economy was starting to reap the benefits from the bold reforms undertaken in recent years. The Brazilian economy was converging to a new growth trend, bolstered by a comprehensive pension reform, strong commitment to fiscal discipline and transparency, privatizations, deregulation, elimination of subsidized credit and flexibilization of the labor market, among other reforms. As a result, interest rates dropped to record low levels, capital markets were thriving, and the economy was accelerating, in an environment of continuous stability of observed and expected inflation. The crisis interrupted this virtuous sequence and brought the economy to a near halt. That notwithstanding, the reform momentum will resume as soon as the situation allows us to shift the focus back from containment to our medium-term goals, which remain the same. The combination of emergency, temporary measures with structural reforms – both undertaken and in the pipeline – gives us confidence that the recovery will be stronger than currently anticipated.

The IMF has acted swiftly to sharpen its toolkit and provide financial assistance to the membership. At the center of the global financial safety net, the Fund has a pivotal role as lender of last resort and has not shied away from its responsibilities during the ongoing crisis. I commend staff, management and the Executive Board for approving higher access levels to the Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF), as well as for revamping the Catastrophe Containment and Relief Trust (CCRT) to the challenges of this crisis. In particular, I praise the diligent work of the Fund staff to deliver a fast, high-quality response to the requests of emergency assistance by nearly 100 members so far. It is now crucial to secure that the new resources are effectively additional to regular Fund assistance, not to penalize countries that were already using PRGT or GRA arrangements in support to their adjustment and reform efforts. Furthermore, the initiative by official creditors, backed by the IMF Managing Director and the World Bank President to provide temporary debt standstill for the poorest countries gives a sense of a truly global community effort in such exceptional times.

The Short-term Liquidity Line (SLL) is an ingenious addition that fills a gap in the Fund's toolkit. The SLL has meaningful innovative features and will provide liquidity for member countries with strong policies to face moderate-sized, high frequency shocks. In doing so, the facility not only supports the beneficiaries directly, but also provides positive spillovers indirectly to the world economy by strengthening incentives for good policies, enhancing financial stability and fostering a more efficient allocation of resources globally. Although tailored for normal times, the SLL will be an effective supplement to defenses for countries with strong fundamentals and policies during this crisis.

A new general allocation of SDRs would also be very helpful. This is a low-cost, low-risk mechanism that has been already tested in periods of crisis. It enhances the flow of global liquidity and is particularly useful for medium-sized and smaller economies, which do not have sufficient international reserves or access to swap lines. The Fund could also devise ways to facilitate the flow of SDRs to support countries that will benefit the most from it.

It is reassuring that we are on track to guarantee that the Fund will maintain its US$ 1 trillion lending capacity. Brazil has completed all domestic procedures to double its participation in the New Arrangements to Borrow (NAB). The Banco Central do Brasil (BCB) also stands ready to proceed with the negotiation to establish a new Bilateral Borrowing Agreement, effective January 1st, 2021. We take note of the urgent need to replenish the PRGT to enable it to face the surge in demand for IMF concessional resources and encourage the efforts to broaden the base of lenders to the Trust in this new round. That said, the crisis underscored the importance of restoring the primary role of quotas in the funding of the IMF, and we may need to anticipate the timeframe for the 16th General Review of Quotas.

Finally, I commend the Managing Director for her bold leadership at the helm of the IMF and welcome her focused and streamlined Global Policy Agenda (GPA). This is not time for "business as usual", and our energy and resources need to be focused on how to cope with the crisis. Non-urgent, non-critical tasks should be streamlined or postponed, as outlined in the GPA.