



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Second Meeting October 15, 2020

**IMFC Statement by Paulo Guedes
Minister of Economy
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**

**International Monetary and Financial Committee
October 15, 2020**

At the outset, our deepest sympathies go to the families of those that suffered so much during this tragic global pandemic. The loss caused by over one million deaths and tens of millions of infected is unspeakable and give no rise for celebration.

Resolute policy response led to a turn-around

The pervasive economic and social fallout of the Covid-19 pandemic has been met by commensurate policy measures around the world. In the absence of the robust and timely policy action taken by most countries, the lives and livelihoods of many more would have been even more badly upended. Six months after our April meeting, we are not out of the woods yet and uncertainty remains high, but the deep contraction of the global economy was reverted amid reassuring signs of recovery.

This crisis once again proved the importance of acting decisively, yet responsibly, using all the available tools to confront shocks of such an overwhelming magnitude. Central banks of many economies acted early and boldly to ensure liquidity provision to the system and restore market confidence, helping to revert the initial surge in risk aversion. Governments swiftly came with extensive fiscal support to promote extraordinary health-related expenditures and preserve jobs and households' income. Moreover, financial sector bottlenecks were addressed, including by exploiting the flexibility embedded in financial regulation. Such an approach has been critical to safeguard the flow of credit to businesses and extend repayment terms, in particular to small and medium enterprises, while maintaining the soundness of the financial system.

Multilateral institutions, with the IMF at the forefront, equally stepped up their game to meet the widespread demand for balance of payments and fiscal support. The Fund increased access limits and provided emergency financial assistance to 69 members. The Catastrophe Containment and Relief Trust has been instrumental to provide debt relief to the poorest countries in the world. Similarly, the G20 Debt Service Suspension Initiative (DSSI) provided important and timely relief for poor countries. Overall, such a comprehensive and forceful response by policymakers and the international community was decisive to allow for developing economies to concentrate their resources on fighting the pandemic. This helped counteract deteriorating expectations and brought the global economy on track for a recovery in this second half of the year.

Brazil's reaction stood out among EMEs

Brazil's economic policy response excelled among emerging market economies and was on par with advanced economies. This was necessary given the magnitude of the shock in the Western Hemisphere and the need to act quickly and without hesitation to save the lives and livelihoods of tens of millions. The Central Bank of Brazil acted swiftly and boldly with a set of measures aimed at providing liquidity and flexibilization of capital requirements. These actions guaranteed the well-functioning of credit markets with credit expanding significantly relative to 2019. The Federal Government acted quickly with measures to support businesses aimed at preserving employment, which successfully averted the loss of an estimated 12 million job positions. In line with IMF recommendation, under the pervasive uncertainty, we run the risk of erring on the upside, not to leave anyone unprotected in such an unprecedented situation. No Brazilian citizen could be left behind. Indeed, the emergency assistance provided by the Federal Government to poor families not only prevented what would have been a disastrous plummeting of millions of families into poverty, but actually reduced poverty and inequality in the country. Of course, as the crisis abates and economic activity resumes, such a sizeable and far-reaching program cannot continue without adjustment. We are currently trying to learn with the recent experience to see how to sustainably and responsibly improve our social safety net to expand the regular cash-transfer program to the most vulnerable households on a more permanent basis.

Continuous support should preserve sustainability in line with country specificities

The pace of unwinding the extraordinary policy stimulus should be dictated by country circumstances, with due regard to sustainability and macroeconomic stability. Countries with policy space, that can afford to remove stimulus only gradually, should continue to provide support to the economic recovery as it gains strength. Where public debt sustainability is a matter of concern, however, further fiscal stimulus could backfire in the form of a deterioration in confidence, a steeper yield curve, disappointing growth and deleterious debt dynamics. In such cases, fiscal consolidation should start immediately and decisively to dissipate any doubts about debt sustainability. For those countries, the focus must shift to improving the composition of expenditures. Spending more efficiently will protect the most vulnerable and enhance potential growth, contributing to a stronger and lasting economic recovery. Hence, our policy advice for this critical moment must be very well calibrated to ensure that country circumstances are properly accounted for and the best policy response for each case is adopted.

In Brazil, reforms should drive a high-quality recovery

Before Covid-19, an ambitious reform agenda brought fiscal finances on sustainable footing, anchored inflation and lowered interest rate, positioning Brazil for a strong economic performance at the beginning of 2020. The pandemic led us to shift gears to protect lives, preserve jobs and revert the free-fall of the economy, while ensuring the stability of the financial system. This strategy was successful, and the economy is already bouncing back. After contracting about an expected 5 percent this year, the economy is set for a robust recovery in 2021, even as fiscal consolidation proceeds in full compliance to the spending ceiling, Brazil's

main fiscal cornerstone. As the robust fiscal framework is retained and with inflation and inflation expectations well anchored, monetary policy can continue to support the economic recovery. In this environment, well-capitalized banks and deep capital markets are ready to provide the needed finance for investment to pick up, while private savings accumulated this year will help smooth the withdrawal of fiscal support.

The reform agenda will proceed at full throttle, as the economy recovers. Brazil is embracing a new economic model based on a smaller state, a more open economy, a larger role for the private sector and enhanced competition, a sustainable fiscal framework, low inflation and lower interest rates. Strong commitment to fiscal discipline and transparency, tax reform to enhance efficiency, de-earmarking and decentralizing expenditures, privatizations, deregulation, elimination of subsidized credit and flexibilization of the labor market, are among the main items of the comprehensive reform agenda that has already made important strides. Brazil's recovery from the pandemic crisis will take place as the economy transitions to a more sustainable, competitive, open and business friendly model, grounded on unequivocal fiscal sustainability.

IMF's leading role

The IMF must continue to play a leading role in supporting vulnerable economies and helping steer the global economy to a virtuous path. The IMF response at the outset of the crisis was nimble and resolute, expanding its toolkit with the creation of the Short-term Liquidity Line (SLL) and providing emergency assistance to a large share of the membership. The task now becomes harder and more complex. As we enter a new phase, in which the economic recovery remains immersed in uncertainty and still faces substantial downside risks, the Fund should refocus its attention to supporting a sustained recovery, strengthening macroeconomic and financial stability, averting deep scarring from the pandemic fallout and bolstering needed structural reforms, while continuing to protect the most vulnerable. We thank the IMF Executive Board and management for the quick response and financial support provided to countries in our constituency—Ecuador, Panama, Dominican Republic, Haiti and Cabo Verde—through the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). In addition, Ecuador has renewed its engagement with the Fund with the recently approved exceptional-access arrangement in support of a strong reform agenda.

The Fund will be increasingly called to support member countries in their recovery efforts through upper-credit tranche arrangements. Members count on the IMF to help them raise their defenses on the face of a protracted risky scenario, and to buttress their endeavors to adjust and reform their economies for the post-pandemic world. Many economies are leaving the acute phase of this unprecedented shock with little or no policy space, some of them with their growth model under vital threat and high levels of public and external debt. Fund's financial assistance and close cooperation among its members will be needed on all three lines of action, namely: (i) *prevention*, to ensure that fundamentally sound economies can withhold likely bouts of volatility; (ii) *adjustment*, for those that need breathing space to bring their economy back on track, without imposing undue costs; and (iii) *structural reforms*, for those that require deeper transformation to restore a sustainable development path. The flexibility embedded in the IMF toolbox should be

fully employed, but this year's crisis has shown that instruments must adapt to the nature and magnitude of the shocks. Creating an emergency window in the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) seems the right approach at this point, and the best way to fully incorporate in our regular toolbox the knowledge acquired with the recent experience. Enhancing risk management to safeguard Fund resources will become ever more important, as the Fund necessarily takes more risk to fulfill its mandate.

Fund bilateral surveillance is of the essence to tailor policy advice to country-specific circumstances, as well as to enrich and temper its institutional view. The IMF sits on a privileged spot, as a candid interlocutor to country authorities around the globe with access to detailed economic data and information on a country-by-country basis. The richness and unique granularity of Fund analysis and policy advice stem not only from the high quality of its staff, but also from the extension, the depth and candor of its dialogue with authorities and stakeholders in member countries. At the height of the shock, it was necessary to postpone Article IV consultations to focus on the emergency response. That said, resuming bilateral surveillance at the fastest possible and sustainable pace is now crucial. We are glad that Brazil was one of the first countries to resume Article IV consultations and we note that consultations are starting to cover not only systemic countries, but the membership more broadly. We call for IMF mission teams to keep an open mind and learn from the richness of country experiences with the response to the crisis.

A well-resourced Fund is required to maintain its role at the center of the global financial safety net. The progress on ensuring the current level of the General Resources Account (GRA) lending capacity is encouraging but must be completed by the end of this year. The IMF cannot afford any shortfall in its firepower in the present challenging situation. We call on all members to do their part. Brazil has already consented to the New Arrangements to Borrow (NAB) augmentation, doubled its commitments to the Poverty Reduction and Growth Trust (PRGT) and completed all internal procedures to sign a new bilateral borrowing agreement with the Fund. Nonetheless, the Fund's quota-based nature needs to be restored and the 16th General Review of Quotas (GRQ) must deliver on the decade-long quota and governance commitments, namely: increase quotas on par with Fund's mandate; better reflect the economic weight of its members; and protect the voice and quota shares of its poorest and smallest members. Given the belated and frustrating result of the 15th GRQ, the work to guarantee a successful 16th Review should start sooner than previously anticipated.

Maintaining the capacity of the PRGT to meet the needs of the most vulnerable share of our membership should remain a top priority. We acknowledge the proliferation of competing demands for scarce resources from donor and creditor countries. Moreover, we are cognizant that the world is heading toward a phase of fiscal consolidation, which has already started for several countries. Nevertheless, the Fund's role in supporting economic recovery in the poorest part of the membership could never be overestimated. Its fulfillment requires fresh money to its main instrument for lending to those economies and we encourage staff and management to explore different alternatives to enable the sustainable augmentation of the PRGT lending capacity. Other financing options to assure that the Fund remains well-equipped

to support LICs include possible ways of using existing SDR holdings and, if needed, a general SDR allocation.

Finally, we want to express our heartfelt gratitude to Fund staff and management for their dedication and proven commitment to the membership in these testing times.