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Statement by Mr. Bevilaqua, Mr. Fachada, Mr. Saraiva, and Mr. Antunes on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for this insightful paper addressing the adequacy of our lending toolkit to the unprecedented nature of the crisis we are facing. We recognize that the existing lending facilities are not tailored to the membership needs at this moment and should be adjusted to meet this purpose. **Our preferred solution would be creating a pandemic window under the EFF (option 3), while keeping the possibility of a second round of RFIs (option 1), if needed, and exercising flexibility in the use of other facilities, as warranted.**

We agree with the fundamental premise of this exercise, namely that we are in unprecedented times, and that our lending toolkit, despite the potential flexibility embedded in it, is not fit to deal with a crisis like no other. Indeed, we second staff's assessment that the high level of uncertainty makes it particularly difficult to elaborate solid macroeconomic diagnoses in several cases, calling for phasing in the design of conditionality as the program evolves. The BoP impact of the crisis may be largely self-reverting for some countries if the pandemic is controlled in the next few months and international trade, tourism and remittances quickly return to their pre-COVID levels. Conversely, in other cases profound structural adjustment may be needed, particularly for those countries dependent on the export of commodities whose prices have been permanently affected by lower international demand. While many countries are expected to require frontloaded IMF support to deal with urgent BoP needs, the extent and the very nature of programs most indicated for their specific situation is likely to fall outside the typical characteristics of our existing arrangements. In this regard, option 2 taken in isolation has an important drawback, as the needed flexibility in the current instruments would have to be reassured for each and every case, opening the possibility for lack of evenhandedness and predictability.

We also see merit in most of staff's considerations about adequate policy responses and program design. Staff's outline of fiscal, monetary and financial policies most adequate to deal with the crisis is sensible and well balanced. We agree that many structural reforms can only be adequately formulated and deployed when uncertainty recedes, and the magnitude of the required adjustment becomes clear. For that reason, we are particularly supportive of innovative proposals such as gradually broadening the content of policies and conditionality, lengthening repurchasing periods, broadening the menu of policy options, and, if required, shortening the review cycles. Such inventive features could become an accepted part of the Fund's repertory in situations where more flexibility is required to meet members' extraordinary needs. Overall, we call on staff to remain mindful of the specific manifestation of the crisis in different countries and avoid one-size-fits-all policy recommendations in upcoming UCT-quality programs as we move from the containment to stabilization and the recovery phases in our lending strategy.

The current crisis represents an opportunity to improve and update our lending practices and strategies. Our emergency financing instruments have been proved extremely useful, but not nearly ambitious enough in a context of a widespread global emergency. We underscore that additional emergency financing may be necessary in the upcoming months, therefore we should not rule out option 1 outlined in the paper, despite the heightened risks associated with it. We also understand the rationale for the creation of a new pandemic-specific facility. Indeed, this solution would allow for well-tailored program design, combined with clear ringfencing, warranted by the current once-in-a-century situation. Nevertheless, we are afraid that such strict ringfencing would prevent us from learning with the experience and evolving in the aftermath of the crisis. Most states deal with extraordinary situations by allowing for 'state of emergency' exceptions under their macroeconomic frameworks. In our view, the Fund needs a similar device. We should be able to boost and adapt out lending toolkit in emergency situations. The proposal of creating a pandemic window under the EFF comes the closest to that perspective. Ideally, the Executive Board should have the power to trigger 'emergency mode' under our GRA and PRGT facilities, whenever we face situations that overwhelm the capacity of our normal emergency financing instruments. Of course, these emergency situations would be clearly ringfenced by sunset clauses, as proposed by staff in option 4.

Considerations on the Fund's lending toolkit should be premised on the commitment to guarantee the adequacy of Fund's resources. We take note of legitimate concerns about heightened risks and the need to guarantee sound safeguards to Fund's resources. We are in favor of staff's proposals to enhance the safeguard of Fund's resources on the face of this amplified demand under uncertainty and heightened risks. At the same time, the Fund must continue to play its central role as the cornerstone of the international financial system, and this involves acting as lender of last resource when necessary. Accordingly, as the crisis evolves, guaranteeing that the Fund is adequately financed through membership quotas becomes more imperative. For that reason, we look forward to the debates under the 16th General Review of Quotas, and we see a case for anticipating its start as warranted.