Ethical and economic imperatives in confronting Covid-19: A view from Latin America

The COVID-19 pandemic is a shock of unprecedented magnitude, uncertain duration and catastrophic consequences that, if not properly addressed, could lead to one of the most tragic episodes in the history of Latin America and the Caribbean. The crisis requires prompt and decisive action, but policy responses in our region have been uneven. Several governments have reacted promptly, making the protection of public health their prime objective. Sadly, others have tended to minimize the risks of the pandemic, misinforming citizens and disregarding both scientific evidence and their own experts' advice. Instead of mobilizing all capabilities at their disposal, some leaders have chosen to play populist and divisive politics in the midst of this tragedy. Latin Americans deserve much better.

The suppression of the epidemic to minimize its morbidity and mortality must be our top priority. Latin America should focus on upgrading our health systems, channeling resources to hospitals, temporarily adapting idle infrastructure such as hotels and convention centers, and drastically increasing testing capacity.

In addition to the massive disruption of domestic production, Latin American economies are suffering from falling export volumes and prices, lost income from tourism and remittances, and large capital outflows. The supply shock in a big part of the economy coupled with a broader demand shock could trigger a contractionary spiral. To prevent that outcome, bold policies to protect the incomes of individuals and households are essential. This involves providing cash transfers for those left in a vulnerable position by the crisis, including informal and independent workers who cannot access employment subsidies or unemployment insurance.

In supporting jobs and incomes of the labor force, relief to businesses is also essential –both to allow them to cope during the period of widespread social distancing, and to ensure that they recover afterwards. Subsidies to help firms pay their wage bill, contingent on the maintenance of employment, protect both companies and workers during the crisis and are crucial for a fast rebound of the economy when conditions normalize. If widespread bankruptcies are not prevented then the next victim of the crisis could be the banking system. At that point the payments system, and in fact the entire economy, would risk collapse.

Many businesses, particularly small and medium enterprises, will suffer significant income losses for the duration of the crisis. Without support, lack of liquidity will soon become a solvency problem. Tax deferrals, loan rollovers and subsidized credit will not be enough. This emergency calls for unprecedented credit guarantees provided by governments to make sure banks keep lending, as well as for temporary changes in regulation to promote incentives for credit expansion. Well capitalized and well managed state-owned banks can also play a leading role.

Fiscal stimulus will also be required over the recovery phase. Governments will need to stimulate employment and economic activity without exacerbating health-related risks. Policies will differ across countries, but extraordinary fiscal resources will likely be needed to boost the recovery.

All this poses an exceptional challenge: while fiscal requirements are now much larger than during the global financial crisis, policy space in Latin American economies is narrower. Fiscal costs should be compensated with budgetary adjustments in low-priority areas. A commitment by our Executive and Legislative branches to correct the larger resulting fiscal deficit within a reasonable time period would serve to mitigate the risk of a credit downgrade now threatening several of our countries.

Latin American leaders should call forcefully for international cooperation to confront the crisis. They ought to condemn export controls on medical supplies and other critical resources, and demand increased resources for the World Health Organization, contrary to the reckless decision announced by the U.S. government. Stronger global coordination among health authorities is needed to improve the capacity to conduct tests, treat and isolate patients, and develop a vaccine and cure, which will be the definitive solution to the Covid-19 pandemic. Pharmaceutical companies should help countries with reactive materials to scale up tests, and with open access to technology to produce them. In the financial arena, regulators, credit rating agencies, and accounting standards institutions must adapt their criteria to deal with the exceptionally adverse systemic circumstances.

External support for both fiscal accounts and the balance of payments is indispensable in this crisis, especially for smaller and less developed countries in Latin America. If both private firms and governments run bigger deficits, countries´ current account gaps are likely to widen as well. Add to that the recent capital outflows from emerging markets —the largest in the modern history of financial markets— fueled by a flight to safety. The associated depreciation of emerging market currencies can be a destabilizing force. For many economies in the region, substantially larger official external support will be the only way to cope with this unprecedented combination of adverse shocks.

The IMF has an essential role to play –both in the short run to address countries' foreign exchange and fiscal needs, and in the future to keep supporting economies through a crisis whose duration remains highly uncertain. The IMF needs more resources and the ability to disburse them rapidly. Latin American governments should call forcefully for a new one trillion issue of the Fund's Special Drawing Rights (SDRs). And while SDRs are allocated to member countries according to quotas, a non-proportional allocation could be achieved by creating a common pool overseen by the Fund, to expedite fiscal support to governments. In addition, the immediate doubling of the New Arrangements to Borrow (NAB) would provide the Fund with the needed capacity to attend to the urgent upcoming demand for loans. Finally, since traditional programs with greater access are too slow to be approved for the current urgencies. the IMF should increase significantly access to facilities with very fast disbursement and low conditionality, such as the RFI, or create new pandemic lines.

Major central banks can further help to reduce foreign exchange liquidity tensions. Access should be broadened to swap lines with central banks that issue reserve currencies. This can be done directly or indirectly through the IMF or the Bank of International Settlements (BIS) as intermediaries of central bank liquidity. Domestically, central banks should use all the instruments within their power, innovating whenever necessary, to provide ample liquidity to financial markets and the economy.

Finally, Multilateral Development Banks (MDBs) such as the World Bank, the Inter-American Development Bank and CAF should double the amount of net lending to the region and tap highly liquid global capital markets to provide further budgetary support for countries, under much reduced conditionality. In exceptional circumstances and in countries without market access, a debt standstill could complement official lending. MDBs should also provide countries with guidelines on the various policy areas involved in the crisis response, including their own estimates of COVID-19 morbidity and mortality rates —particularly in those nations where governments are downplaying the health threat. Time is of the essence.

The challenge posed by this pandemic has no parallel in recent history. The world and the Latin American and Caribbean region cannot afford delayed or inadequate responses. Mutual trust, transparency and reason —not populism or demagoguery— remain the best guideposts in these uncertain times. The crisis cannot be an excuse to weaken our hard-won democracies. Instead, it should become an opportunity to strengthen democracy in Latin America, and to show it can deliver for citizens.

Signed,

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