International Monetary and Financial Committee

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IMFC Statement by Henrique de Campos Meirelles
Minister of Finance
Brazil

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

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Global Economic Outlook

1. The global economic recovery continues to advance at a measured and uneven pace. Eight years after the beginning of the global financial crisis, it is hard not to feel disappointed with such performance. Nonetheless, the overall outlook has stabilized since our last meeting in April. Indeed, the consensus that loose monetary policy in systemic advanced economies would be maintained for longer than expected and the fiscal and credit stimuli taken by the Chinese authorities have helped to lessen market tensions, which had peaked in the first months of the year. Commodity prices have also recovered from their trough in January-February, while financial conditions have improved overall, especially for emerging market and developing countries (EMDCs).

2. The continuing less adverse macroeconomic and financial environment offers a window of opportunity for EMDCs to strengthen their policy frameworks in order to cope with a world of lower commodity prices and slower growth, as well as to rebuild their fiscal and external buffers. The short-term outlook, though, is expected to remain subject to bouts of volatility, as markets worldwide continue to try to anticipate the moves from systemic central banks, especially the Federal Reserve. In parallel, the prevailing conditions of low growth and low profitability pose risks for financial institutions, particularly in Europe.

3. The way global conditions have evolved this year after a very turbulent start shows the importance of taking timely decisive actions to support growth in a consistent and globally coordinated manner. Available policy space to sustain growth in the short run should be used in tandem with the implementation of the longer term agenda to foster productivity and potential growth. Balancing short-term pressures and long-term challenges is key for the success in promoting a stronger and sustained global economic recovery. In this regard, we look forward to the Fund's work on enhancing our understanding of the productivity drivers and the causes of the productivity slowdown.

4. We share the concerns with possible backlashes to the global integration agenda. It is worrisome that middle-income segments of the population, especially in advanced economies, feel that they have been hurt by international trade and globalization. In fact, deeper global

economic integration has been a major force behind the improvement in living standards of hundreds of millions of people from the lower income strata in EMDCs in the past few decades. In this regard, the IMF and other relevant international organizations should communicate more clearly the overall benefits, including in distributive terms, of greater trade and financial integration. At the same time, better knowledge of how the globalization process has ensued and the corresponding policy advice to ensure that the overwhelming majority of the population in every country feels its benefits will help build the domestic political support for further integration.

Brazilian Economy

5. In the past two years, Brazil has witnessed the deepest economic recession ever recorded. At present, however, there are signs that activity has bottomed out. As political uncertainty has dissipated, encouraging signs of increasing confidence suggest that growth is likely to resume by the end of the year. Our baseline scenario is still one of a modest recovery, but the private investment response may surprise on the upside.

6. The new administration, which was confirmed only one month ago, has shown strong commitment to a fiscal consolidation agenda and is determinedly pursuing structural reforms that will ensure a sustainable public debt trajectory over time. A constitutional amendment establishing a ceiling for fiscal expenditures at all levels of government is currently being considered by Congress, while a proposal for social security reform is being finalized and will be sent to Congress soon. At the same time, a multibillion dollar plan for infrastructure concessions and privatizations, which has been very well received by investors, is expected to continue attracting foreign direct investment.

7. The progress of the fiscal consolidation strategy, with the structural measures anchoring expectations and boosting confidence, while inflation and inflation expectations continue to converge to the target, may create the conditions for rebalancing the policy mix. Such an evolution of the macroeconomic scenario will facilitate a stronger than currently expected response in private investment, possibly unleashing a more vigorous recovery of the Brazilian economy.

IMF Resources, Lending and Governance Reform

8. The IMF remains the cornerstone of the international monetary system and a well-resourced institution is fundamental to safeguard its stability. Nevertheless, since the global financial crisis, the Fund has been relying continuously and disproportionally on borrowed resources. Brazil has recently committed to continue contributing, through the NAB and a bilateral borrowing agreement, to maintain the IMF’s current lending capacity. However, the Fund is and should remain a quota-based institution, and therefore it is crucial to reestablish the appropriate mix between quota and borrowed resources, without jeopardizing the current

financial envelope. For that purpose, the Fund and its members must reaffirm their commitment to meet certain goals within the scope of the 15^{th} General Review of Quotas (GRQ), including a new quota formula that better reflects the weight of members in the global economy.

9. In order to enhance the Fund's credibility and legitimacy, any realignment in quotas is expected to result in increases in the shares of EMDCs as a whole, in line with their increasing relative positions in the world economy, which the current quota formula fails to properly capture. Consequently, any increase in Fund quotas should be preceded by a substantial improvement in the quota formula, or otherwise it could cause even more distortions in members' representation.

10. We welcome the initial discussions on proposals to enhance the Fund's lending toolkit to address gaps in the global financial safety net and to help members adjust to ever-growing external shocks amid a more interconnected global economy. We also welcome the Fund's work with small middle-income countries vulnerable to natural disasters and climate change, aimed at enhancing their preparedness, mitigation and adaptation and improve their debt sustainability, including through access to IMF concessional financing.

De-Risking and Correspondent Banking

11. We appreciate the specific attention to the issue of the loss of Correspondent Banking Relationships (CBRs) in the Fund's flagship reports and the Managing Director's plea for a concerted international effort to avoid the marginalization of small and fragile states. More importantly, it is encouraging that the Fund is developing a more comprehensive understanding of the causes behind the loss of CBRs, which goes well beyond the perceived deficiencies in a country's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework.

12. The Fund's acknowledgement and prioritization of this issue, given the social and economic ramifications to the countries affected, should be commended. Given the possible adverse implications to the countries in our constituency, our chair has been supporting swifter action to find a solution to this critical issue. Through combined efforts with other chairs, tangible progress has been made in bringing the loss of CBRs to the forefront of many agendas and allocating resources to conduct research and analysis on the topic.

Policy Agenda

13. We continue to support the engagement of the IMF on policy topics that, although may not appear directly linked to its mandate, are important to ensure economic and financial stability, and to generate employment, such as financial inclusion, climate change, inequality, migration, gender issues and technological progress. Needless to say, this agenda must not come at the expense of other long-established work streams of the Fund. We also welcome the work of

the Fund on governance and corruption issues, with a focus on better understanding how corruption affects economic and fiscal performances and on designing effective anticorruption strategies. To maximize synergies and better understand these problems, the Fund should seek to continue to collaborate with other multilateral institutions, adjusting its policy advice when and where warranted.