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

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The world economy

1. Recovery in the advanced economies (AEs) is just beginning at a slow and uneven pace. The recovery is more sustained in the United States, where short-term fiscal risks have substantially diminished and unemployment is gradually falling. This has allowed the Federal Reserve to start normalizing monetary policy by tapering asset purchases, causing volatility and disturbances in financial markets, particularly in emerging market countries. Japan has also continued to take important steps to boost its economic recovery, notably in the monetary area, but much remains to be done in terms of fiscal consolidation and structural reforms.

2. Even the euro-area is emerging from recession, although unemployment rates in most countries remain at or near record levels. The Fund is recommending more monetary easing to the ECB, and rightly so. Deflationary pressures are of special concern. In southern euro-area countries policy interest rates – in real terms – are substantially higher than growth, creating additional hardship for countries striving to ensure debt sustainability and gain competitiveness within a monetary union. High real interest rates amplify debt burdens, making it difficult to implement growth-enhancing measures.

3. Real interest rates in the United States have begun to rise and will probably continue to increase. If this occurs gradually and as a consequence of economic recovery, it may not be a concern for emerging market economies and developing countries (EMDCs). However, the transition from extraordinary unconventional monetary policies (UMPs) to a more normal setting is fraught with difficulties and risks – including because the expansionary phase, first in the US and more recently in Japan, has occurred on an unprecedented scale and with instruments that were not regularly used by central bankers. The transition to a post-crisis world economy has only started and can still create zones of turbulence and instability, especially for emerging markets. Some EMDCs have already increased interest rates to stem capital outflows, leading to a rise in the cost of investments and hampering economic recovery.

4. The reverberations of monetary policies of AEs deserve more analysis from the IMF and more attention by central bankers in countries that issue reserve currencies. The

perception that AEs are “navel-gazing” and that EMDCs are “on-their-own” creates incentives to build up reserves, strive for competitive exchange rate, contain current account deficits and adopt capital flow measures. EMDCs will probably continue to follow these routes, according to individual country circumstances. But the question we should all ask is whether the simultaneous adoption of these policies by a large number of countries will lead to a favorable outcome for the world economy as whole.

5. EMDCs are currently facing a number of other challenges, including the risk of a slowdown in Asian economies, worsening terms of trade for those that are net exporters of commodities, as well as spillovers from a possible escalation of geopolitical tensions.

6. Despite these risks, EMDCs remain by far the main drivers of world economic growth, a fact sometimes obscured in recent documents of the IMF. As can be inferred from data provided by the IMF itself, in its latest World Economic Outlook, the contribution of EMDCs to global growth was almost 80 percent in 2013, and is projected to be around 70 percent in 2014 and 2015. In our constituency, there are quite a few examples of emerging markets that are posting high economic growth rates, including Ecuador, the Dominican Republic, Nicaragua and Suriname, where growth ranged from 4 to 5 percent in 2013. Panama stands out in this respect with its economy still expanding above 8 percent in 2013, after two years of double-digit growth in 2011 and 2012.

7. Brazil’s economic growth has averaged 3.1 percent per year in the crisis period since 2008. In 2013, GDP expanded by 2.3 percent, with investment rising by 6.3 percent. Brazil is preparing for a new phase of the world economy by undertaking structural reforms, notably through strong investment in infrastructure and education. The Brazilian government is implementing one of the largest infrastructure concession programs in the world, of around US$ 400 billion, that includes highways, railroads, ports, airports, energy, and oil and gas. These investments are already ongoing and will be noticed by those who visit Brazil during the World Cup.

8. With regard to employment, EMDCs are also showing in general much greater strength than AEs, and our constituency is no exception. In Brazil, the unemployment rate has stabilized at a low level in recent years thanks to a strong expansion of job offers in the formal sector and a higher share of job opportunities for more qualified young workers. Trinidad and Tobago, Suriname and Ecuador, with rates at or below 5 percent in 2013, are among the countries that have the lowest unemployment figures in the Western Hemisphere.

9. Moreover, fundamentals are often stronger in EMDCs. For instance, they are in a better fiscal position than AEs, according to data provided in the IMF’s Fiscal Monitor: the EMDCs’ average fiscal deficit of 2.5 per cent of GDP in 2013 was much lower than the AEs’ average of 3.9 per cent of GDP; the EMDCs average gross financing needs (defined as the sum of the overall deficit and maturing government debt) is projected to be 9.1 per cent of GDP in 2014 compared to the AEs’ average of 22.2 per cent of GDP. Even more striking was the difference between the EMDCs’ average general government debt of 35 per cent of GDP last year and the AEs’ average of 107 per cent of GDP.

10. Low-income countries, as a group, are also performing well: growth picked up to 6 percent in 2013 and a further uptick to about 6.5 percent is expected for 2014. The low-income country in our chair, Haiti, is still enduring the consequences of the devastating earthquake of 2010 but was able to have a broadly satisfactory performance under its current program with the Fund, growing 4.3 percent in fiscal year 2013.

Redressing income inequality

11. Income inequality is on the rise in many economies and this could have far-reaching macroeconomic consequences and contribute to political and social unrest. Inequality has been making a demand-driven recovery in AEs more difficult and may also help explain persistent current account surpluses in China and some other EMDCs.

12. In Brazil the trend is in the opposite direction. From a high level of 0.556, the Gini coefficient has been falling continuously since 2004, reaching 0.507 in 2012. The share of total income received by the 10 percent with highest incomes dropped from 45 percent in 2004 to 42 percent in 2012, while that of the 40 percent with lowest incomes increased from 11 to 13 percent. This trend results to a great extent from economic growth, formalization of labor relations, real increases in the minimum wage as well as extensive and well-targeted cash-transfer programs which are benefiting almost one quarter of the population at a relatively modest fiscal cost, equivalent to 0.5 percent of GDP.

13. The Fund has recently paid more attention to rising income inequality; however, this still needs to be translated into relevant policy advice. The IMF could, for example, identify a set of indicators to help governments discern where there is room to increase taxes on high incomes and wealth without damaging job creation, or could assist countries in enhancing the progressivity of taxes and improving social transfer policies. If individuals with a higher marginal propensity to consume could get a bigger share of national income, it would be easier to rebalance global demand and to wean the recovery in AEs from excessive reliance on UMPs. Indeed, some UMPs may have distributional effects and the Fund should look closer at them. When central banks buy financial assets their prices get a boost and so too the pocket of their owners, mostly the rich.

Quota and governance reforms

14. The extraordinary delay in approving the 2010 quota and governance reforms in the United States Congress is worrisome and harmful to the IMF. All the effort done for these reforms by governments of member countries and the Executive Board is being wasted.

15. The IMF cannot remain paralyzed and postpone its commitments to reform. Alternatives to move forward with the reforms must be found whilst the major shareholder does not solve its political problems. The IMF needs to ensure that resources are available on a permanent and reliable basis, avoiding excessive reliance on instruments such as the New Arrangements to Borrow (NAB). The quota and governance reforms are the Fund's 'structural reforms'. Failure to implement what was agreed by the membership sends a negative signal about the IMF's governance structure and its ability to change. As the Governor of the Central Bank of the Dominican Republic, Héctor Valdez, observed, how can

the IMF credibly recommend structural reforms to member countries if it is unable to implement its own quota reforms?

16. It is time to consider ways to unlock the entry into force of the 14th General Review of Quotas (GRQ). The delinking of the 14th GRQ from the Executive Board reform amendment is legally feasible and would allow us to move forward regardless of what happens in the US Congress. Moreover, if we are serious about concluding the 15th GRQ and the new quota formula by the postponed deadline of January 2015, the Executive Board should start to work on it immediately. One should not lose sight of the fact that the 15th GRQ and the new quota formula are crucial forward-looking elements of the 2010 quota and governance reform package.

17. I remind once again that EMDCs only agreed to the 2010 reform, with its limited shifts in voting power, in exchange for the commitment to a comprehensive review of the quota formula and an early completion of the 15th GRQ. During the crisis, with strong participation of emerging market countries, the IMF's borrowed resources were boosted in a major way as a bridge to quota increases agreed under the 2010 reform. Emerging market countries have delivered their part of this political understanding. Major advanced countries have yet to do theirs. Resistance to change on the part of overrepresented European countries has also been a major hurdle to making progress on a new quota formula that would better reflect member's relative economic weights.

BRICS Contingent Reserve Arrangement and New Development Bank

18. Since last October, remarkable progress has been made by the BRICS countries on the Contingent Reserve Arrangement (CRA) and the New Development Bank (NDB), which are now in the final stages of negotiation. It is expected that the CRA Agreement and the Articles of Agreement of the NDB will be ready for signing by the time of the next Summit of BRICS leaders in Brazil, in July 2014. The CRA, with an initial size of US$ 100 billion, will be established as a self-managed precautionary arrangement to provide mutual support and help forestall short-term liquidity pressures. The NDB will mobilize resources for infrastructure and sustainable development projects. The CRA and the NDB are cornerstones in the cooperation among the BRICS.

Countries in fragile situations

19. We welcome the increased IMF engagement with states in fragile situation, a distinct set of countries that deserve particular attention. Our chair in the Executive Board, which has Timor-Leste and Haiti among its members, has insistently called on the Fund to interact more closely with the g7+, the group of 18 countries coordinated by Timor-Leste which is the world's first collective voice of fragile and conflict-affected states. The IMF was slow to react but has been catching up lately and is trying to make clearer the modalities of its support to these countries. The g7+/IMF high level workshop at these Spring Meetings and the envisaged review of the effectiveness of IMF engagement with countries in fragile situations, to take place later this year, are initiatives of special importance in that regard.

20. We expect a new framework of engagement to emerge from these discussions and that the collaboration between the IMF and the g7+ will be enhanced. The Fund should stand ready to provide prompt assistance to fragile and post-conflict states in process of re-engagement with the institution. IMF surveillance could be more attentive to the particular context prevailing in these countries, such as the dearth of qualified human resources, lack of institutional capacity and political instability. It is essential to ensure, for instance, that program conditionality and surveillance recommendations are appropriately tailored and flexible so as not to hinder the process of reconciliation and state-building. The IMF should focus on achieving macroeconomic stability but also on promoting growth, generating employment and improving social indicators.

Small states

21. Our constituency also includes some Fund members that are classified as “small states” (Cabo Verde, Guyana, Suriname, Timor-Leste and Trinidad and Tobago). The Working Group of Executive Directors on Small States, of which our chair is a member, continues to be actively engaged with both Management and staff of the IMF to ensure the initiative keeps moving forward. Nonetheless, progress on the IMF’s relation with small states has been limited over the past year. We urge the IMF to accelerate its work program on small states. These countries’ capacity to produce high-quality analysis and policy guidance on a variety of macro-critical areas is generally limited. As a result, they tend to rely more heavily on the IMF.

22. Sovereign debt challenges persist for many small states, particularly those in the Caribbean. While external stakeholders seek to advance workable solutions to sovereign debt woes, the IMF's voice in the ongoing debate is muffled by the institution's reluctance to adopt a clear position. With indications that sovereign debt issues will persist for some time, it is important for the IMF to contribute to advance this discussion.