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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

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<u>Promoting growth in a challenging international setting</u>

The baseline world economic outlook remains relatively favorable, with growth moderating this year but rebounding next year and plateauing at reasonable levels afterwards. Emerging markets and developing economies (EMDEs) will continue to contribute the bulk of the global economic growth. That said, policy makers around the world acknowledge that the current global juncture poses considerable challenges. Economic deceleration seems more widespread than anticipated, warranting generalized revisions of growth projections for this year.

Against this challenging backdrop, we are promoting a liberalizing shock to boost potential growth in Brazil. The new administration has laid out and is working to implement a wide-ranging reform agenda. That effort includes resolutely opening the economy, effecting a comprehensive privatization program, adopting an efficiency-boosting tax reform and other productivity-enhancing, business-friendly microeconomic measures. That said, the first and most critical step in the agenda is the social security reform, which is projected to entail savings to the north of R$1 trillion over ten years. The administration is fully committed to this agenda and has been working closely with the Congress to ensure that the political momentum triggered by last year's Presidential and legislative elections materializes into this set of far-reaching and needed reforms.

Economic recovery in Brazil, albeit slower than anticipated, has posted eight consecutive quarters of growth. The external sector is fairly adjusted with a well-functioning floating exchange rate and a current account deficit at below 1 percent of GDP, while direct investment net inflows endure at almost 5 percent of GDP. Inflation remains close to the target and well-anchored. Deleveraging among households has largely proceeded and continues among businesses, with credit growth being led by unearmarked loans provided by private banks. We trust that, as soon as the uncertainty related to the sustainability of social security is removed and the economy assimilates the liberalizing shock, investment will come with full strength, closing the output gap and unleashing the enormous growth potential of the country.

The expected acceleration of the Brazilian economy shall generate positive spillovers, contributing to better economic performances in Latin America and among EMDEs in 2020. Although 2019 growth projections have been revised down, in 2020 EMDEs will be responsible for sustaining a robust world output growth. Nevertheless, even among EMDEs, the picture is mixed. In Latin America, we are already witnessing higher growth rates than last year.

In Asia, some fast-growing economies are either holding up or accelerating. Meanwhile, China continues to slowdown in a paced way.

Within this context, a successful policy tuning in advanced economies will facilitate a smooth adjustment in global aggregate demand. A resumption in capital flows will channel global savings into investment opportunities and enable further growth relocation toward EMDEs. Removal of policy uncertainties – both domestically and globally – will play a key role in sustaining such economic rebalancing. The same applies to China's ability to steer the delicate transition without losing too much steam. Hence, IMF's recommendation of "do no harm" – using policy space to counter sharp deceleration and building buffers as much as possible – is highly topical.

The shift in monetary policy direction of key central banks is welcome. There is more evidence now that many advanced economies have reached or are approaching their cyclical peaks and are expected to decelerate in the forthcoming quarters. Such cyclical downturn has been exacerbated by some idiosyncratic factors and, most importantly, by policy uncertainties and trade tensions. On top of that, key structural constraints – among them, demographics and low productivity – are also at play, requiring growth enhancing reforms in all quarters. Policy adjustment has been necessary and the more accommodative monetary policy outlook in the US and the euro area, where inflation and inflation expectations remain subdued and fiscal space is limited, has helped uphold sentiment and address some market anxiety. That notwithstanding, policy makers should remain mindful of possible impacts of the reversal of normalization on financial vulnerabilities.

<u>Strengthening the IMF and reducing global uncertainties</u>

Despite the expected medium-term recovery in EMDEs, the current scenario is still challenging and leaves no room for policy mistakes. The combination of cyclical deceleration in advanced economies, limited policy space, financial vulnerabilities, trade tensions and global policy uncertainties, as well as the difficult transition in China create a challenging global scenario. First and foremost, countries need to do their homework. The correction of imbalances that have been nurtured over a long period may require external finance to support the undertaking of needed policy adjustment and implementation of difficult structural reforms. In this respect, we thank IMF Management for its readiness to engage with the Ecuadorian and Haitian authorities and support their efforts to adjust their economies. Accordingly, the IMF must be prepared to step in and help in the reconstruction of the Venezuelan economy, as soon as the political conditions allow. We are convinced that the IMF remains uniquely positioned to play a central role in the global financial safety net.

A strong IMF depends on four pillars: the quality of its advice; the efficacy of its lending facilities; its financing capacity; and its governance structure. The high quality of IMF staff has ensured a continuous and consistent evolution of IMF thinking and policy dialogue, making this a robust pillar. With respect to facilities, while some improvement would be welcome, the existing toolkit covers most of the potential shocks and financing needs by the membership. As for the available resources for lending, whereas the current amount is deemed as sufficient to cope with a range of potential risks, its composition has been tilted to temporary borrowed resources, rather than the more reliable own resources. Finally, the governance gap in the IMF has long been identified. The 2010 Quota and Governance Reforms made an important step in the direction of correcting past distortions, by improving the alignment between quota shares and relative economic weight and hence by increasing the voting power and representation of EMDEs in the IMF. On that occasion, almost 9 years ago, the membership has committed to continue this adjustment in the 15th General Review of Quotas (GRQ). We regret the lack of progress in this regard.

Our responsibility as members is to ensure that the pillars supporting the IMF remain solid. As the expiration of around US$ 400 billion borrowed resources approaches and a quota increase is unlikely under the 15th GRQ, it would be a negative signal to let the IMF capacity fall short when it may be most needed by the membership. As a participant of the New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBAs), Brazil is willing to continue to contribute in the efforts to ensure that IMF resources will not decline. In this regard, short of a quota increase, an expansion of the NAB envelope would be a welcoming step. Such a move must be complemented by a change in NAB shares consistent with the direction of the governance reform we contemplate, which shall result in enhanced representation of emerging economies. Assuming no governance reform can take place without a quota increase, a shift in NAB shares will give more credibility to renewing the commitments on the needed governance reforms to be adopted in the 16th GRQ.

<u>A renewed Global Policy Agenda to foster international prosperity</u>

The Fund should continue to focus on its core mandate, while developing its capacity to tackle new macrocritical concerns. Surveillance should be able to feed into timely and focused policy dialogue, including by better integrating financial surveillance into Article IV consultations. The Comprehensive Surveillance Review and the Review of the Financial Sector Assessment Program (FSAP) offer a suitable opportunity to better allocate Fund resources and sharpen its analytical tools and framework.

In a rapidly changing world, the IMF has duly incorporated new emerging issues in its agenda that are critical for macroeconomic performance. High among them are the issues of fiscal transparency and better governance, which affect the resource allocation in the economy, but are also fundamental to ensure continued trust in our economic and political institutions. Increased international cooperation on tax matters is a highly topical agenda, even more so in view of the challenges posed by digitalization. We believe that the Fund has a constructive role to play here, complementing other international fora. The Platform for Collaboration on Tax provides an invaluable instrument for the membership to exchange experiences and promote capacity development. We highlight that the members in our constituency are highly appreciative of the Fund's capacity development program.

Our constituency remains committed to strengthening the IMF and supporting a Global Policy Agenda centered on enhanced international collaboration. In order to face contemporary challenges, multilateral engagement is paramount. We firmly believe that a functioning and collaborative international economy is in the interest of all, and we see the IMF as one of its cornerstones.