INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Fortieth Meeting
October 18–19, 2019

IMFC Statement by Roberto Campos Neto
Central Bank Governor
Brazil

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

Statement by Roberto Campos Neto
Central Bank Governor, Brazil

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

International Monetary and Financial Committee
October 19, 2019

Global economic outlook

Decisive action is needed to safeguard global growth and stability at the current delicate juncture. During the past year, we have witnessed successive downward revisions of global growth projections. In 2019, the world economy is expected to grow at the slowest pace since the global financial crisis (GFC) in 2008-2009. The slowdown is relatively broad-based and has deepened throughout this year. Furthermore, risks are clearly tilted to the downside. Nevertheless, based on a positive contribution from emerging market economies (EMEs), the baseline outlook points to a modest recovery in 2020.

Policymakers must support growth in a responsible and sustainable way. On the international front, de-escalating trade tensions and modernizing the multilateral trade system to enable a more open global economy is at the forefront. In individual countries, policies should reflect domestic circumstances and policy space, and should be used to increase potential growth over the medium term. Countries that need to reestablish a sustainable path for their public debt should continue to consolidate their fiscal policies, building buffers and policy space over time. Structural reforms to promote growth and create more jobs are fundamental everywhere, particularly where productivity growth is lagging.

Emerging markets and developing economies are forecast to be the main drivers of the growth acceleration in 2020. Despite the delicate global outlook, medium-term perspectives remain positive. Some emerging market economies are recovering from stressed conditions and are expected to improve their growth perspective next year. A swift resolution of ongoing trade tensions, coupled with productivity-enhancing reforms, should create favorable conditions for a new global growth cycle. That said, we remain mindful that the materialization of domestic or external risks could postpone such a scenario. Therefore, EMEs should continue to pursue bold reform agendas to improve potential output, boost confidence and enhance resilience.

In advanced economies, proactive policies, especially on the monetary policy front, have helped prevent the global economy from stalling. The policy stances adopted by the Federal Reserve and the European Central Bank (ECB) this year have contributed to ease international financial conditions and helped to avoid a more abrupt global slowdown. Along similar lines, fiscal and monetary measures taken in China have supported a soft economic deceleration.

Wherever fiscal space is still available, it should be judiciously used to bolster growth and enhance productivity and potential output.

The main sources of downside risks are the escalation of trade and geopolitical tensions. We call on the major global economies to refrain from imposing new trade restrictions. Free and fair trade is the cornerstone of international prosperity; therefore, trade disputes of global impact must be swiftly resolved. In a world of mounting trade restrictions, the economy grows less, productivity gains are limited, and global welfare is curtailed. The uncertainty associated with trade tensions, by itself, has been an important drag on economic growth, depressing investor confidence and delaying investments. The IMF should continue to play a constructive role by demonstrating the economic costs of high tariffs and obstructions to the free flow of goods and services.

A strong IMF at the center of the global financial safety net (GFSN)

Taking into account the challenging situation of the global economy, the IMF must continue to play a stabilizing role at the center of the GFSN. That involves remaining vigilant in face of growing financial vulnerabilities and properly equipped to act swiftly when needed in support of member-countries' adjustment efforts. Therefore, we welcome ongoing analytical initiatives, and reaffirm our longstanding support for an adequately-resourced, quota-based IMF.

Vulnerabilities have been nourished by a prolonged period of easy monetary and financial conditions. An abrupt tightening of financial conditions and reversal in risk appetite could be triggered by several different factors, affecting sectors that are financially exposed, including non-financial corporations. Post-GFC regulation and stricter supervision have reduced leverage and contained vulnerabilities within the banking sector, and the remaining regulatory agenda should be completed and implemented without delay. However, non-bank financial institutions have increased their leverage and should be closely monitored, as enhanced interconnectedness could magnify shocks in specific sectors and countries.

The lack of results in the 15th General Review of Quotas is deeply disappointing. The unique role of the IMF at the center of the GFSN requires well-grounded advice, resources, instruments and legitimacy. Accordingly, the IMF currently faces two major distortions that need to be addressed as soon as possible: (i) the quota formula and shares do not reflect the relative weight of the economies of the membership in the world economy; and (ii) the current dependency on borrowed resources is a precarious arrangement and do not reflect the quota-based nature of the institution.

Given the lack of consensus for a quota increase now, we welcome the proposal to double the New Arrangements to Borrow (NAB). However, the disproportionate share of borrowed in total resources should not be increased, and bilateral borrowing agreements should be reassessed accordingly. In addition, a symbolic shift of NAB shares towards EMEs would provide a timid, but valuable, signal of good will in the direction of future governance reform. It would also be a way of giving a little boost of credibility for the commitments under the 16th Review.

The Comprehensive Surveillance Review (CSR) and the Financial Sector Assessment Program (FSAP) Review provide an opportunity to sharpen IMF surveillance and enhance its evenhandedness. The traction of IMF's surveillance depends largely on the keenness and candor of staff analysis, based on state-of-the-art knowledge and the proper accounting for country-specific circumstances. An issue that deserves special attention in IMF surveillance – and overlaps both reviews – is the better integration of financial surveillance into Article IV consultations. This is critically needed to closely monitor the financial developments and the emergence of financial vulnerabilities across the membership.

Engagement with conflict-affected countries and countries in fragile situation remains a challenge. The need to account for specific circumstances and be parsimonious in program conditionality is incommensurably higher when dealing with fragile states. Our constituency looks forward to the full implementation of the Board-endorsed recommendations of the Independent Evaluation Office (IEO) evaluation on IMF engagement with fragile states. Given the challenges of IMF work in fragile states in terms of surveillance, lending, and capacity building, we support having an IMF resident representative in every fragile state.

The private sector is leading the recovery in Brazil

Brazil is engaging in the most ambitious reform agenda among emerging markets, and growth is expected to more than double next year. In fact, the high quality of the growth recovery is more important than the rate of growth. Contrary to what has taken place in previous occasions, this time the recovery in Brazil is fully led by the private sector, amidst a strong fiscal adjustment. Public investment and distortionary public credit are being replaced by private investment financed by private markets, which will allocate resources more efficiently, boost productivity and change the growth drivers of the Brazilian economy. One of the key initiatives to restore fiscal sustainability is the pension reform, which has gathered overwhelming support in the Brazilian Congress and is now in its final approval stage. Furthermore, the constitutional ceiling on primary expenses will continue to put the public debt ratio on a firm sustainable path.

In a context of low inflation and well-anchored inflation expectations, the Central Bank of Brazil has set interest rates to historically low levels. Accommodative monetary policy, coupled with easier international financial conditions, is expected to continue to provide support to economic activity. The decline in interest rates is fostering the long-term private credit markets and ensuring a more sustainable growth path.

The current administration is committed to a reform agenda that will increase microeconomic efficiency, cut red tape and eliminate sectorial distortions. Moreover, greater trade openness, privatizations, concessions and a business-friendlier environment will help attract domestic and foreign private investors. The Brazilian stock market is already responding to the ongoing reforms, hitting historic heights in 2019. As a large market and resource-rich country, Brazil continues to offer attractive investment opportunities.

IMF Managing Director

On behalf of Brazil and the ten countries in our IMF constituency, I thank the previous Managing Director, Ms. Christine Lagarde, for her invaluable and lasting contribution for the Fund in the eight years of her tenure. I wish her well in her future endeavors at the helm of the ECB.

I also warmly welcome the new IMF Managing Director, Ms. Kristalina Georgieva, the first in the history of the Fund to come from an emerging market economy. Ms. Georgieva is highly qualified for the position and I trust she will provide the leadership needed by the Fund in the challenging times ahead. I wish her all success in her new journey.