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Statement by Mr. Haddad
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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Minister of Finance, Brazil

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

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<u>The global economy: times of uncertainty</u>

The global economy is navigating uncharted waters. Trade tensions triggered by unilateral measures have damaged surplus and deficit jurisdictions, fueling record levels of uncertainty. This compounds a challenging scenario, characterized by subdued long-term growth, sticky inflation, higher for longer interest rates, and increasing debt vulnerabilities, all aggravated by the looming climate crisis. A drastic reduction in international development aid and the increase in migration restrictions are new elements further dampening global growth prospects. Much of the apparent economic resilience in high-income countries reflects temporary front-loading of trade and investment, masking the underlying drag from high uncertainty and restrictive trade and migration policies, which should become more evident in the coming months. We take solace in the fact that emerging markets and developing economies remain the main engine of global growth. Going forward, we must redouble our efforts to build a new globalization, in which the prosperity of each society is a condition for the shared prosperity of humanity as a whole.

Risks are tilted to the downside and structural challenges may deepen global imbalances. Aging populations, weak productivity, climate risks, and rising protectionism weigh heavily on global potential output. Although a different combination of these factors affects high, medium, and low-income countries, we are particularly concerned about the possibility of widening global inequality. Low-income countries have been facing sharper downward revisions in their growth forecast, reduced access to concessional financing, rising climate costs, and declining aid and remittance flows. These negative dynamics risk eroding convergence, leaving the global economy increasingly uneven. Beyond these structural factors, short-term risks stem from an escalation of conflicts, shocks to labor supply, and extreme weather events. On the upside, the lifting of unilateral trade restrictions and faster productivity gains from AI and the ecological transformation of the global economy could result in stronger and more sustainable growth.

A better future is still within reach if we work together. Predictable policy frameworks and a renewed commitment to global economic cooperation are essential to build a fairer and more resilient global economy. Monetary policy should remain data-dependent and clearly communicated to anchor expectations and maintain credibility. On the fiscal side, growth-friendly consolidation should be based on enhanced domestic revenue mobilization through the revision of inefficient and regressive tax exemptions and increasingly progressive income and wealth taxation. Now is the time for the super-rich to pay their fair share of taxes. In the recent past, international economic cooperation was instrumental in lifting millions out of poverty, improving living standards, and strengthening global resilience. The 2025 Sevilla Commitment points the way forward to reviving the sustainable development agenda. Although it is true that the gains from globalization have been uneven, we firmly believe that this calls for more cooperation, not less. We, therefore, continue to call for a new globalization, driven by socioenvironmental imperatives. The removal of unilateral trade restrictions and the restauration of predictable, rules-based frameworks are essential to safeguard global growth. Beyond trade, enhanced cooperation is also critical to address shared global challenges, such as climate change, rising inequality, and elevated debt levels.

Brazil: Strengthening the macroeconomic foundations of sustainable development

Economic activity is now close to potential after exceeding expectations for several years, while inflation is slowly converging towards the target. We welcome the revision of Brazil's growth forecast to 2.4 percent in 2025, an increase of 0.4 percent vis-à-vis the April World Economic Outlook. The sustained growth reflects the resilience of the Brazilian economy despite the challenging global environment and trade restrictions. This resilience, in turn, can be explained by a diversified export profile, a strong domestic market, and solid macroeconomic fundamentals. The positive economic momentum is confirmed by the fact that both unemployment and income inequality are at record low levels. The external accounts remain stable, with the current account deficit largely financed by consistent inflows of foreign direct investment, flexible exchange rates, and large reserve buffers. Sustained investor confidence in the country's long-term growth prospects underpins a favorable medium-term economic outlook. Core inflation remains relatively elevated, however, pointing to persistent underlying pressures, while headline inflation expectations are above the target. Accordingly, monetary policy remains in contractionary territory, underscoring the Central Bank of Brazil's unwavering commitment to delivering on the target and re-anchoring expectations.

Our administration's economic agenda continues to emphasize social justice within a credible fiscal framework. Since 2023, the Federal Government has been implementing measures aimed at achieving a balanced public budget, while reconciling fiscal, social, and environmental sustainability endeavors. To ensure the proper functioning of the welfare state mandated by the 1988 Brazilian Constitution and contribute to reducing various forms of inequality, it is necessary to acknowledge that fiscal policy directly impacts the income distribution. The fiscal results for 2023, 2024, 2025, and the projections for 2026 reveal our firm commitment to fiscal consolidation. We are currently projecting a new fiscal surplus generation cycle starting next year. The target set for 2026 is a primary surplus of 0.25 percent of GDP. For 2027, the fiscal target is a surplus of 0.50 percent of GDP; growing to 1 percent of GDP in 2028; and 1.25 percent in 2029, when we project public debt stabilization. It is important to note that the fiscal adjustment delivered in recent years has not been solely based on high-quality revenue-side measures but also included expenditure rationalization. Going forward, we will continue to use fiscal policy as a tool to promote social justice and increase well-being, while taking the economic cycle into consideration.

Structural reforms are boosting potential growth and promoting sustainable development. A landmark income tax reform bill was recently approved by unanimity in Chamber of Deputies of the Brazilian Congress and is due to be analyzed by the Federal Senate in the next few weeks. It includes a broad-based tax cut for the bottom tier of taxpayers, to be fully compensated for by minimum effective income tax rates levied on the 0.2 percent top earners, who typically pay proportionally less in taxes than working families. Revenue-neutral by design, the reform bill will greatly enhance tax progressivity. In addition, a comprehensive consumption tax reform was approved last year, introducing a Dual-VAT tax system. The implementation phase starts in 2026. The positive impact on growth has been estimated to be between 12 and 20 percent of GDP over fifteen years. Our comprehensive Ecological Transformation Plan is leveraging Brazil's comparative advantages and reinventing economic, technological, and cultural paradigms in favor of development through sustainable relationships with nature. We remain on track to meet our ambitious emission targets, including zero deforestation by 2030. The structural reform agenda also includes a list of microeconomic reforms to improve efficiency and equity in credit markets. Overall, our structural reform agenda is enhancing the business environment while promoting social justice and a just energy transition.

<u>IMF: Time to reaffirm the institution's analytical independence and global vocation</u>

The IMF has an irreplaceable role at the center of the global financial safety net. As unilateral trade restrictions reshape markets and increase uncertainty, the analytical work of the Fund becomes a highly valued lighthouse, helping the membership navigate the turbulent waters of the world economy. We are highly impressed by the candor of the IMF flagship publications. It is essential for the Fund to preserve its analytical independence and remain a strong advocate for multilateralism, predictability, and evidence-based macroeconomic policymaking. We continue to count on a strong IMF, well-equipped to monitor policy spillovers, uphold global financial stability, facilitate the expansion of international trade, address debt vulnerabilities, map opportunities associated with the closing of gender gaps, and support the membership's sustainable development endeavors.

We welcome the emphasis on promoting growth and tackling global imbalances. The clear call in the Fund's publications for policies that foster confidence, build resilience, and safeguard macroeconomic and financial stability is very welcome. Although restoring depleted buffers and maintaining stability is essential, policy advice should ensure that adjustment strategies are growth-friendly and inclusive, with a strong emphasis on fair burden-sharing through progressive taxation. The Fund must support the international community in upholding our commitments in relation to the Sustainable Development Goals and clearly identify the global trade-offs of trade restrictions and development aid cuts, particularly for low-income countries and regions facing food insecurity. We recall that the IMF was created with the ambition to reduce long-term global imbalances through ingenious monetary mechanisms of global economic rebalancing. Unilateral trade restrictions are not compatible with the spirit of the IMF's Articles of Agreement, whose very fist article defines as a purpose of the Fund to "facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members". For that reason, we call on the IMF to use its convening power to the benefit of rules-based, multilateral solutions to global imbalances.

Governance reforms are urgently needed, and we have high expectations for the 17th General Review of Quotas (GRQ). To fulfill its role at the center of the global financial safety net the IMF must remain well-resourced and representative of its membership. We welcome the ongoing work toward implementing the 16th GRQ, and the efforts to develop principles to guide future discussions on quota and governance reforms. BRICS countries have led the way by issuing the "Rio de Janeiro Vision for IMF Quota and Governance Reform" in July 2025. We invite the IMFC Chair to use the BRICS contribution as an input for the principles. In particular, we call for the end of the anachronistic post-World War II gentlemen's agreement which places the top positions in the Bretton Woods institutions out of the reach of the vast majority of the membership. We stress the importance of making concrete progress under the 17th GRQ, in line with the Board of Governors' mandate to develop approaches for further quota realignment, including through a new quota formula. Strengthening the IMF's governance and representativeness is fundamental to ensuring evenhandedness, fairness, and the continued legitimacy of the institution.