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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

Statement by Fernando Haddad
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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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The global economy: facing times of uncertainty

The contemporary polycrisis has been compounded by unprecedented policy uncertainty, upending the global economy's fragile equilibrium. At the beginning of 2025, a hard-fought stabilization had begun to take hold following years of severe shocks. Moderating inflation and normalizing labor markets were positive developments, against the backdrop of a continued climate crisis, subdued long-term growth, and increasing debt vulnerabilities. This limited progress is now at risk in the aftermath of sudden trade policy shifts, potentially leading to financial reallocation and severe disruptions to global supply chains. If these effects become persistent, potential growth can be lower and neutral rates can be higher. The global economy is thus entering uncharted territory. Longstanding assumptions about international cooperation come increasingly under strain. In this context, there is a premium on de-escalation and policy predictability. We must strengthen global economic cooperation and make globalization work for all.

Emerging vulnerabilities will be tested in an increasingly uncertain global environment. Disinflation has stalled in several economies, with renewed upward price pressures beginning to re-emerge. At the same time, limited fiscal buffers, elevated public debt levels, higher long-term interest rates and reduced capability for countercyclical policies have constrained many countries' ability to respond to potential shocks. Progress towards the Sustainable Development Goals (SDGs) has been extremely disappointing, and there is a growing risk the SDGs will not be met in 2030. We commend ongoing efforts to boost investment and accelerate green transitions and ecological transformations around the world.

Risks to the outlook are tilted to the downside. The tariff shock and reactive trade policy positioning have increased the likelihood of geopolitical and geoeconomic fragmentation. Such an environment is conducive to amplified financial market volatility, which could trigger unexpected shifts in capital flows. In the longer run, a less integrated global economy will result in productivity losses, affecting first and foremost peripheral, export-oriented economies. In this context, we lament the drastic reduction of official development assistance from some advanced economies. We call on IFIs to step up and stand ready to support vulnerable economies in need should risks materialize.

Navigating this challenging economic landscape requires strong and stable policy frameworks and a renewed commitment to global economic cooperation and multilateralism. Monetary policy should remain data-dependent and clearly communicated to anchor expectations and maintain credibility. On the fiscal side, growth-friendly consolidation should close revenue gaps through progressive taxation, thereby protecting priority spending on infrastructure, human capital, and social protection. We welcome the IMF focus on boosting strong, sustainable, balanced, and inclusive growth (SSBIG). International economic cooperation has been instrumental in lifting millions out of poverty, improving living standards, and strengthening global resilience. Although it is true that the gains from globalization have been uneven, we firmly believe that this calls for more cooperation, not less. Building on the results of Brazil's G20 Presidency in 2024, we continue to call for a new globalization, driven by socio-environmental imperatives.

<u>Brazil: converging towards a higher growth potential</u>

After outperforming expectations for years, Brazil's economy is now converging towards potential. Growth reached 3.2 percent in 2023 and 3.4 percent in 2024, consistently above market and IMF forecasts. At the beginning of 2025, Brazil was one of the few major global economies to close the gap between actual GDP growth since 2019 and the country's pre-pandemic trend. In the first quarter of 2025, GDP is projected to grow by 1.5% percent over the previous quarter. On the back of global uncertainties and a tighter monetary policy, growth is expected to decelerate to 2.3 percent in 2025, before converging to the 2.5 percent potential thereafter. The external accounts remain stable, with the current account deficit comfortably financed by consistent inflows of foreign direct investment. This stability in external financing reflects sustained investor confidence in the country's long-term growth prospects, contributing to a favorable economic outlook.

As in other EMDES, inflation has edged above the upper band of the target. Underscoring the Central Bank's commitment to bringing inflation back to the center of target (3 percent) amid ongoing inflationary pressures, monetary policy is currently in contractionary territory. Recent price increases—driven by climate-related shocks affecting food and energy—have contributed to the renewed rise in headline inflation. Core inflation remains relatively elevated, pointing to persistent underlying pressures. Accordingly, since mid-2024, the policy rate has been raised by a cumulative 375 basis points, including the most recent 100-basis-point hike in March 2025. Looking ahead, the Central Bank emphasized that the extent of the tightening cycle will be determined by its firm commitment to achieving the inflation target and will depend on the evolution of inflation dynamics, expectations, and the overall balance of risks. At the same time, a range of regulatory and trade measures has been adopted to help lower the cost of food, including zeroing trade tariffs on a number of products.

The new fiscal framework has served the country well, allowing space for priority social spending while ensuring long-term debt sustainability. Erratic fiscal policies prior to 2023 have been replaced by a sophisticated fiscal rule, which allowed for the fast recovery of education and health investments while ensuring that expenses will grow less than revenues in the long run. On the revenue side, the administration is taking steps to improve progressivity and reduce inefficient subsidies that erode the tax base. On the expenditure side, improved social spending targeting and a new rule to guarantee the long-term fiscal sustainability of minimum wage increases have been enacted, with the aim of smoothing the growth of mandatory expenses and align them with the new fiscal framework. Since the second semester of 2024, a gradual, growth-friendly fiscal consolidation strategy has been contributing to closing the output gap in harmony with the tighter monetary policy. At the same time, the administration is committed to adopting high-quality fiscal adjustment measures with a view to preserving recent gains in social inclusion and contributing to the reduction of inequalities.

Ongoing structural reforms are boosting growth potential and promoting equitable and sustainable development. Two unprecedented tax reforms will have major impact on the Brazilian economy over the next few years. The first tax reform, already approved by Congress, replaced multiple existing taxes with a Dual-VAT tax system. In the aftermath of the implementation phase between 2026 and 2033, the reform is expected to stimulate growth – with a positive impact estimated between 12% and 20% of GDP in fifteen years – and entrepreneurship, creating a more competitive and stable business environment. The second tax reform will greatly increase progressivity in income taxes by reducing the tax burden at the bottom of the income pyramid and enforcing minimum levels of effective taxation at the very top. In addition, our comprehensive Ecological Transformation Plan is harnessing Brazil's unique comparative advantages to attract green investments, promoting a change in economic, technological, and cultural paradigms in favor of development through sustainable relationships with nature. The structural reform efforts are complemented by a list of microeconomic reforms to improve efficiency and social justice in credit markets, including a debt renegotiation project, new infrastructure debentures, and the new framework for guarantees, among other measures under Congress examination.

The IMF: Increasing ambition and rising to the occasion

The IMF has an irreplaceable role to play at the center of the Global Financial Safety Net. To effectively play its role, the IMF must rise to the occasion, preserving its analytical independence and its capacity to offer candid advice to all members, particularly in policy matters that have negative spillovers and threaten global economic stability. The IMF also needs to remain well-resourced and nimble, quickly responding to the membership's needs, which are likely to increase in the coming months. Sudden shifts in policy advice should be avoided to preserve the Fund's surveillance mandate, including at the regional and global level. We therefore call for continued focus on issues such as the macrocritical effects of climate change, gender, inclusion, and inequality. We applaud ongoing collaboration with other relevant international fora, in particular the Fourth International Conference on Financing for Development (FfD4) and the 2025 UN Climate Change Conference (UNFCCC COP 30).

Keeping our previous commitments is fundamental to safeguard the Fund's reputation. Brazil has doubled its contribution to the PRGT to SDR 2 billion and has done its part by consenting to the 16th GRQ, the NAB rollback, and the extension of its bilateral borrowing agreement (BBA). We urge IMF Governors who have not yet completed the needed domestic procedures to do so within the timeline set by our Board of Governors resolution so that the 16th GRQ can take effect. We also call on the Executive Board to uphold our commitment to develop effective approaches to promote meaningful quota realignment, including through a new quota formula, by June 2025.

We look forward to the results of the Comprehensive Surveillance Review and the Review of Program Design and Conditionality. In the aftermath of substantial progress achieved last year in the PRGT and the charges and surcharges reviews, we have high expectations for the upcoming reviews on surveillance and conditionality. We expect these reviews to build on the results of IEO evaluations and take into account the experience of the membership with surveillance and financial assistance. These reviews will also offer an opportunity to refine the Fund's analytical toolkit, incorporating recent developments in progressive taxation. Upholding the principle of evenhandedness and parsimony in conditionality will be of the essence for successful reviews.

It is urgent to reinforce the Fund's legitimacy and representativeness through meaningful quota realignment and stronger focus on capacity building. The Fund can only enhance its legitimacy by delivering on historical commitments to better reflect today's global economy by increasing the weight of EMDEs in the Fund's governance, while preserving the quota shares of lower income countries and small developing states. Additional initiatives to increase voice and representation are welcome, in particular the introduction of double majorities for some decisions and the consideration of regional rotation mechanisms for the Fund's top leadership positions. We call on the Fund to step in and do its part to accelerate progress towards the SDGs through enhanced and stable Capacity Development (CD) provision.

In these challenging times, we call for an ambitious IMFC communiqué. We strongly support the IMFC Chair in their endeavor to have a communiqué after several years of chair statements. Geopolitical tensions have prevented the IMFC from speaking with one voice over the past years. Now it is time to unite around a clear message of de-escalation and renewed international economic cooperation and multilateralism. At the same time, we expect the IMFC communiqué to reflect the priorities and the most pressing concerns of the membership, including governance reform issues. We reaffirm our support for a stronger, effective, and more representative IMF at the center of the global financial safety net.