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Statement by Mr. Guardia
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 Eduardo Refinetti Guardia
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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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Global Economic Outlook

1. **I welcome the global growth momentum, which has become stronger and more widespread in the past few months.** More robust investment in advanced economies has favored an uptick in international trade growth, with positive repercussion for economies all over the globe. While more pronounced in the group of advanced economies, growth projections were substantially revised upward in some large Latin American economies. Out of thirty-two countries in Latin America and the Caribbean, twenty-two will grow more in 2018 than in 2017. After two years of contraction, Brazil posted a positive one percent growth in 2017 and is expected to grow around three percent this year.

2. **Global financial conditions remained favorable, as monetary policy normalization has proceeded gradually and transparently.** Policy stances in key regions remain accommodative and inflation subdued, albeit inching up progressively. However, recent market corrections suggest that the financial Goldilocks of low volatility, high valuations and low yields may be a delicate equilibrium. Emerging market and developing economies should reinforce internal buffers and make use of the yet favorable financial conditions to persist on economic adjustments and reforms.

3. **While overall policy stances should remain supportive, the emphasis on fiscal consolidation and debt sustainability, so that fiscal buffers are rebuilt, is welcome.** Ten years after the global financial crisis (GFC), many advanced and developing economies have been left with high levels of public debt and fiscal deficits that need to be addressed. Moreover, demographic and productivity trends are not favorable, thus heightening fiscal challenges. Fiscal adjustment takes time and the payoff for acting early is high. In particular, those low-income countries that are at high risk of debt distress are encouraged to take prompt and effective measures to avert a debt crisis. Advanced economies that have fiscal space should use it wisely to boost potential output growth and help reduce global imbalances.

4. **Emerging market and developing economies, as a group, will continue to make the largest contribution to global growth**. Persistent convergence to better living conditions on the face of mounting demographic headwinds will require proper policy stances and progress on the structural reform agenda to foster productivity, potential output and ensure

fiscal sustainability. Equally important is the international cooperation to back domestic efforts, especially by preserving an open multilateral trade system, to overcome poverty and promote development opportunities.

Brazil's Economic Recovery

5. **Brazil has left behind its worst recession and economic growth is picking up.** Inflation has plunged from its peak to historic lows and is expected to gradually converge to the target from below, warranting an accommodative monetary policy stance. The effect of disinflation on household disposable income was substantial and supported the cyclical recovery last year. Monetary policy stimulus – provided by the cumulative 775 bps interest rate cuts since October 2016– is still working its way through economic activity, as demand for credit recovers. Fiscal consolidation is proceeding, anchored by the spending cap and the primary balance target, restoring credibility to the framework. Notwithstanding the progress so far, reforms must continue in order to sustain the low inflation and low interest rate environment, as well as the economic recovery. The more immediate agenda includes reforms to improve the tax system and the business environment.

Strengthening Multilateral Cooperation to Improve Medium-Term Prospects

6. **Looming risks over the medium term call for cautious policy stances, stronger international cooperation and greater focus on structural reforms.** Risks can result from exogenous shocks or be caused by policy choices. The most notorious risk in the latter category is an escalation of trade tensions, which would derail the recovery of global trade growth. International trade integration has been a main propeller of growth and has facilitated development convergence worldwide. Protectionism is not the way to deal with possible undesirable side-effects of this integration. Domestic policies should support those that have been adversely affected by technological innovation and trade during the transition to a new equilibrium with more job opportunities to all, as well as foster a more inclusive pattern of growth, without undermining the beneficial international flow of goods, services and knowledge. The IMF and its members should forcefully advocate trade integration, showing the widespread costs of protectionism, and stand up for the rules-based, multilateral trade system.

7. **Cooperation is equally important to ensure full and consistent implementation of the agreed financial regulatory agenda**. The protracted period of extremely low interest rates and unconventional monetary policies have engendered fragilities in the financial system, which may surface and need to be closely monitored as we advance toward more normal monetary and financial conditions. Uncertainty regarding the regulatory agenda or the prospect of rolling back measures taken to curtail risks after the GFC do not contribute to make the global economy more resilient.

8. **I welcome the innovations coming from the technological front. Machine learning, big data, distributed ledger and other technologies are opening numerous economic and financial doors.** The rate of innovation challenges regulators, supervisors and

policy makers, demanding a close monitoring of new technologies. In particular, digitalization furthers the need to enhance cooperation on cross-border issues. I praise the Fund's engagement on the subject of the digital economy and expect it to support the membership in taking advantage of the new technologies to foster productivity, welfare and financial stability.

9. **Greater interconnectedness requires a well-resourced, quota-based IMF at the center of the global financial safety net (GFSN).** I take note of and thank the Executive Board for the report on the 15th General Review of Quotas (15th GRQ), while expressing our disappointment with the limited progress made so far. Regional Financial Arrangements and bilateral swaps added capacity to the GFSN, but their coverage is uneven and they have limited competence to take on the Fund's complementary functions of surveillance and program conditionality – both of which critical for the good performance of the emergency lending function. Self-insurance has been an effective way to bolster stability, but not all countries have the capacity to protect themselves. Moreover, from a global perspective, a multilateral framework enhances allocative efficiency and facilitates better balancing of external positions.

10. **For a successful and timely completion of the 15th GRQ, consensus at the IMFC could be built around four tenets: (i) avoiding losing lending capacity; (ii) reestablishing the quota-based nature of Fund's resources; (iii) further aligning quota shares and economic weight; and (iv) protecting the most vulnerable members.**

11. **The current lending capacity of the Fund is the minimum required to meet potential demand as we transition to tighter financial conditions after a protracted period of abundant international liquidity.** That was the understanding of the membership when borrowed resources were mobilized through bilateral agreements to complement Fund's own resources while the quota increase was still underway. The expiration of the borrowing agreements in 2020 would leave the Fund short of approximately one-third of its current resources, at a point when monetary policy normalization in the United States is expected to have matured, while it should be proceeding steadily in Europe. A quota increase of, at least, a similar magnitude would preserve the firepower of the Fund and help restore the historical balance between own and borrowed resources.

12. **Any meaningful quota increase can only take place as part of the ongoing, if not overdue, process of aligning quota shares and the relative economic weight of members**. Deviating from that route not only delays the bridging of the IMF governance gap but may undermine Fund's legitimacy and risks increasing fragmentation of the GFSN. The proposed mid-point approach points in the right direction and draws from the consensus reached in the 14th GRQ, in which allocation was roughly determined by a mix of the current formula and GDP size. Greater alignment of quota shares and GDP size should be made in conjunction with a mechanism to protect the quota and voting shares of the most vulnerable part of the membership, comprised by the PRGT-eligible countries and small developing states.

13. **Progress made in other items of the Fund agenda has been significant**, with, for instance, the conclusion of the Interim Surveillance Review, the adoption of a framework to enhance Fund engagement on governance, the analysis of the role of the SDR, and clearer guidance for staff engagement with small states. I look forward to the review of facilities for low-income developing countries, as well as further progress on addressing the loss of correspondent banking relationships, as ways to improve the Fund's support to small and low-income economies. In the forthcoming Comprehensive Surveillance Review, I expect a greater focus on evenhandedness and the appropriateness and consistency of policy advice, which are key to ensure more traction of Fund surveillance.

14. **In sum, our message is three-pronged: (i) members should act to enhance resilience and boost potential output, while the positive growth momentum and financial conditions prevail; (ii) international cooperation remains essential to promote global trade and tackle new emerging challenges; and (iii) the Fund should address its resource and governance gaps to help the membership navigate the forthcoming normalization of monetary and financial global conditions.**