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Statement by Mr. Meirelles
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 Henrique de Campos Meirelles
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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. The global economy has gained momentum and growth has become more widespread since we last met in April. Remarkably, this is the first time since 2011 that growth prospects are revised positively for both advanced and developing economies from the Spring to the Fall edition of the World Economic Outlook. Several factors have contributed to such a positive juncture, including progress in corporate and household deleveraging, a somewhat lagged impulse in consumer confidence driven by low commodity prices, successful policy stimulus in China and overall supportive financial conditions. While risks seem more balanced in the short run, the very low volatility environment may be disguising important vulnerabilities that tilt risks to the downside over the medium term.

2. Policy stances should remain supportive, but carefully crafted – given the asynchrony in the cycles and the structural constraints – in order to maximize growth synergy whilst avoiding the build-up of fragilities. As inflationary pressures remain subdued in most advanced economies (AEs), monetary policy normalization should continue to proceed cautiously lest the still incipient recovery be aborted. Whereas protracted low interest may entail excessive risk taking and contribute to exuberant asset valuation, financial vulnerabilities should be dealt with primarily by macro- and micro-prudential policies. Central banks in key advanced economies have been noticeably improving their communication and are carefully steering the markets to follow a gradual path of normalization. Notwithstanding the acquired skills of central banks, one should anticipate a bumpy road, as we move out from such unprecedented long period of unconventional monetary policies.

3. At this point, as output gaps have gradually shrunk, only a few key economies can have more active expansionary fiscal policies. For many countries, crisis legacies, changes in relative prices, unwarranted profligacy during the boom period, demographics, entitlements, among other factors ask decisively for fiscal consolidation to ensure a sustainable path of public debt. This overarching goal should be pursued in the most growth-friendly way to avert compounding into a worldwide contractionary stance. Even though the global growth momentum is reason for optimism, it remains delicate and still requires intensive care to fully develop.

4. For many countries, particularly emerging markets, this more favorable situation offers an opportunity to rebuild buffers and open policy space for a reversal in financial conditions. Emerging markets and developing economies, which are benefiting from low spreads and substantive inflows, should set a cautious course of action to enhance resilience and sustain growth over time. We take note that countries with flexible exchange rate regimes have endured less costly adjustments. Low productivity, low job creation or the creation of low quality jobs, hindrances to competition are a few of the hurdles that need to be tackled by policy makers in most countries. The structural reform agenda is urgent and should be undertaken whether in good or bad times.

5. On a multilateral basis, it remains critical to ensure that trade and financial integration continue to deepen, facilitating economic convergence in a worldwide scale. In order to ensure that globalization benefits all and helps reduce inequality, attention should be given to sound fiscal and social policies to secure, in every country, a positive redistributive outcome from global growth.

Brazilian Economy

6. The Brazilian economy rebounded in the first half of 2017 from its longest and deepest recession, as the effects of structural and macroeconomic policies started to add to other cyclical factors. At the current juncture, employment and real income have increased, underpinned by strong disinflation and the gradual economic recovery. While fiscal challenges persist, the ongoing deleveraging of households and companies provides needed breathing space for a balanced recovery.

7. The structural reform agenda is vast, and has proceeded with a focus on key areas that will help increase productivity, improve confidence and boost investment. Reforms in labor market regulations, a new fiscal framework to limit public spending, improved governance rules in state-owned enterprises, actions to stimulate investment, revamped legislation on concession of public services and new regulation that will result in the convergence of the interest rate of the Development Bank (BNDES) to market rates over time, among other measures, have been implemented. Further reforms are expected to be considered by Congress, including of the social security system – crucial to reflect demographic changes in the Brazilian society and to ensure public debt sustainability. Progress in the reform agenda is important to enhance competition in the economy, helping to keep inflation down, and contributing to lower the neutral interest rate.

8. The external position remains consistent and the floating exchange rate regime, along with appropriate international reserves, has served well as a first line of defense against external shocks. The current account deficit has substantially dropped over the last two years whereas foreign direct investment (FDI) increased as percentage of GDP.

9. The financial system remains solid and capitalized with adequate regulation and supervision. Potential credit expansion will benefit from sound financial conditions and can contribute to close the large output gap in the Brazilian economy. On the back of improved confidence in the macroeconomic policy, risk premia have dropped, reducing sovereign risk to the lowest level in recent years, close to investment grade levels. Inflation is hovering around 3% and will creep up to the target in the next 18 months, while basic interest rate has been slashed by 600 bps with more cuts expected by market participants. Overall, the Brazilian economy is picking up steam and gradually resuming a sustainable growth path.

15th General Review of Quotas (GRQ)

10. In the aftermath of the global financial crisis (GFC), the IMF has proven yet again its importance and critical role at the center of the global financial safety net (GFSN), even as it became more complex and multilayered. The 2010 Governance and Quota Reform was an important step in the direction of realigning Fund's quotas to members' relative weight in the global economy. It has enhanced Fund's legitimacy, but remains a working in progress begging to be completed. The current 15th GRQ has been postponed several times, but now I am glad to notice that progress towards the needed consensus has started. First, there is an understanding that the reform can only succeed as a single undertaking, with agreement being simultaneously reached on the quota formula, size and composition of Fund's resources and how the quota increase will be allocated.

11. Most, if not all members, agree that the Fund should remain quota-based and needs to be adequately resourced. Quotas play multiple roles, being a permanent and readily available source of funding, a yardstick to determine access to financing at the Fund, and a link between rights and obligations of the Fund and its members. However, only half of the current lending capacity of the Fund, which is deemed as roughly adequate, is granted by quota resources – the other half comes from borrowed resources. Such an arrangement was critical to ensure that the IMF would not fall short of resources during the post-GFC period. We were happy to make voluntary contributions, but at this point, one should not presume that the bilateral borrowing agreements, conceived to bridge the resource gap while the permanent base is restored, will be renewed another time. Moreover, resources should be considered adequate through a period that extends to the middle of the next decade, when a new replenishment is expected to be in effect. In a horizon where uncertainty is intrinsic, the costs of having an under-resourced Fund are incomparably higher than the cost of having idle resources.

12. Building consensus on the quota formula will require concessions from all members to reach a compromise. Beyond the specific interests of each country, our aim is to improve the provision of a global public good. Only with this frame of mind we can escape from the zero-sum-game approach which eventually leads to paralysis. The current quota formula is

not a starting point, as it magnifies divergences between economic weight and quota shares. We should recall that for the agreement in 2010 to succeed, 40 percent of the quota allocation was made on an ad-hoc basis, determined by the GDP blend and not the formula. In this sense, the suggestion by Fund staff to work around the mid-point between the GDP blend and the current formula not only is sensible but also builds upon a recent important precedent. In fact, we would happily go along with a formula exclusively based on GDP, with a higher proportion of GDP at purchasing power parity (PPP) prices in the blend. However, I understand that neither GDP nor the current formula would be able to draw sufficient support for consensus to be built upon it. In order to protect the most vulnerable portion of our membership, low income countries (all 70 PRGT-eligible) and small states should have their quota shares preserved with the 15th GRQ.

Small states

13. In addition to low-income countries, small states are a special subset of Fund members which deserve special attention. This group has a great deal to gain from the Fund expertise on several areas to compensate not only their inherent lack of scale but also some negative externalities from global growth. Small states are disproportionately affected by natural disasters, which have climbed as climate changes, making them even more socially and economically vulnerable. The Fund has the capacity to propose adequate frameworks to mitigate risks and provide resources to cope with potential imbalances resulting from natural disasters. Additionally, capacity building and tailored advice – particularly to strengthen revenue mobilization, to improve public financial management and to ensure financial stability and prevent money laundering – can deliver considerable gains as small scale increases average costs. We would encourage initiatives to strengthen the traction of technical assistance through follow up missions and short-term experts in the field. Another issue in regard to these members is the loss of correspondent banks, requiring further Fund engagement to find practical solutions.